As filed with the Securities and Exchange Commission on June 8, 2001.
Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PRINCIPAL FINANCIAL GROUP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	6719	42-1520346
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

711 HIGH STREET
DES MOINES, IOWA 50392
(515) 247-5111
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

KAREN E. SHAFF, ESQ.
SENIOR VICE PRESIDENT AND GENERAL COUNSEL
PRINCIPAL FINANCIAL GROUP, INC.
711 HIGH STREET
DES MOINES, IOWA 50392
(515) 247-5111
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

WOLCOTT B. DUNHAM JR., ESQ. JAMES C. SCOVILLE, ESQ. DEBEVOISE & PLIMPTON 875 THIRD AVENUE NEW YORK, NEW YORK 10022 (212) 909-6000	ALEXANDER M. DYE, ESQ. JOSEPH D. FERRARO, ESQ. LEBOEUF, LAMB, GREENE & MACRAE, L.L.P. 125 WEST 55TH STREET NEW YORK, NEW YORK 10019 (212) 424-8000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.01 par value(2).....	$2,936,647,452	$734,161.86

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(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act. In accordance with Rule 457(o), the number of shares being registered and the proposed maximum offering price per share are not included in this table.
(2) Includes the Series A Junior Participating Preferred Stock purchase rights associated with the common stock.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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EXPLANATORY NOTE

The prospectus relating to the shares of common stock to be used in connection with a United States and Canadian offering, the U.S. prospectus, begins following this page. The prospectus to be used in connection with a concurrent international offering, the international prospectus, will consist of the alternate pages following the U.S. prospectus and the balance of the pages included in the U.S. prospectus for which no alternate is provided. The U.S. prospectus and the international prospectus are identical except that they contain different front cover pages and "Underwriting" sections. Final forms of each prospectus will be filed with the Securities and Exchange Commission under Rule 424(b).

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION. DATED , 2001.

[PRINCIPAL FINANCIAL GROUP LOGO]

Shares

PRINCIPAL FINANCIAL GROUP, INC.

Common Stock

This is an initial public offering of shares of common stock of Principal Financial Group, Inc. The offering is being made in connection with the conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company in a process called a demutualization. After the demutualization, Principal Financial Group, Inc. will indirectly own all of the outstanding common stock of Principal Life Insurance Company.

In addition to the shares offered by this prospectus, Principal Financial Group, Inc. will issue an estimated shares of its common stock to policyholders entitled to receive shares in the demutualization in exchange for their membership interests in Principal Mutual Holding Company, or to a separate account for the benefit of those policyholders.

Prior to this offering there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $ and $. Application will be made to list the common stock on the New York Stock Exchange under the symbol "PFG".

See "Risk Factors" on page 12 to read about factors you should consider before buying shares of the common stock.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Principal Financial Group, Inc.	$	$

To the extent the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Principal Financial Group, Inc. at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on 2001.

GOLDMAN, SACHS & CO.

Prospectus dated , 2001.

PROSPECTUS SUMMARY

This summary highlights information contained in this prospectus. As a result, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and the notes to those statements. References to "$", "US$" or "dollars" are to United States dollars, and references to "A$" are to Australian dollars, unless we indicate otherwise. The Glossary beginning on page G-1 of this prospectus includes definitions of certain terms which are unique to this offering. Each term defined in the Glossary is printed in boldface the first time it appears in this prospectus.

The Principal Financial Group is a leading provider of retirement savings, investment and insurance products and services, with $113.0 billion in assets under management and approximately thirteen million customers worldwide as of March 31, 2001. Our U.S. and international operations concentrate primarily on asset management and accumulation. In addition, we offer a broad range of individual life and disability insurance, group life and health insurance, and residential mortgage loan origination and servicing in the United States.

We focus on providing retirement products and services to businesses and their employees. We provided services to more 401(k) plans in the United States in 2000 than any other bank, mutual fund or insurance company, according to surveys conducted by CFO magazine. We also had the leading market share in 1999 within the 401(k) market for businesses with less than 500 employees based on number of plans, number of participants and assets under management, according to the Spectrem Group.

We believe there are attractive growth opportunities in the 401(k) and other defined contribution pension plan markets in the United States and internationally. Assets under all 401(k) plans in the United States are projected to grow at an annual rate of 13.5%, reaching $2.6 trillion in plan assets by 2004. In addition, only 15% of U.S. businesses with fewer than 500 employees offered a 401(k) plan in 1999, compared to 81% for businesses with 500 or more employees. We believe that our expertise and leadership in serving the U.S. pension plan market give us a unique competitive advantage in the United States, as well as in countries with a trend toward private sector defined contribution pension systems.

OUR OPERATING SEGMENTS

We organize our businesses into four operating segments:

- U.S. Asset Management and Accumulation;

- International Asset Management and Accumulation;

- Life and Health Insurance; and

- Mortgage Banking.

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

One of the primary measures of our business is assets under management. We define assets under management to include all assets on which we earn an asset-based fee or a spread. Further, we measure the composition of assets under management both by the segment that accumulates the assets and by the entity that manages the assets. The table below shows the composition of assets under management by both measures:

COMPOSITION OF ASSETS UNDER MANAGEMENT
AS OF MARCH 31, 2001

	ASSET MANAGER(2)				
	PRINCIPAL CAPITAL MANAGEMENT	BT FINANCIAL GROUP	OTHER ENTITIES OF THE PRINCIPAL FINANCIAL GROUP(3)	THIRD-PARTY ASSET MANAGERS	TOTAL ASSETS UNDER MANAGEMENT
	($ IN BILLIONS)				
ASSET ACCUMULATION SOURCE(1)					
U.S. Asset Management and Accumulation	$70.9	$ --	$0.7	$5.0	$ 76.6
International Asset Management and Accumulation	0.1	21.0	2.9	1.1	25.1
Life and Health Insurance	9.3	--	--	0.1	9.4
Mortgage Banking	--	--	0.4	--	0.4
Corporate and Other	1.5	--	--	--	1.5
Total	$81.8	$21.0	$4.0	$6.2	$113.0

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(1) We define "asset accumulation" as the sale of investment-oriented products and services for which we provide administrative services and/or offer investment choices.

(2) We define "asset management" as the provision of investment advisory services. We refer to the entity that provides these services as the "asset manager."

(3) Principal Residential Mortgage, Inc., Principal International and Principal Bank.

U.S. ASSET MANAGEMENT AND ACCUMULATION. Our U.S. Asset Management and Accumulation segment consists of our asset accumulation operations which provide products and services, including retirement savings and related investment products and services, and our asset management operations conducted through Principal Capital Management, our U.S.-based asset manager. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the United States, with a concentration on small and medium-sized businesses, which we define as businesses with less than 1,000 employees. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans and non-qualified executive benefit plans. We also offer annuities, mutual funds and bank products and services to the employees of our business customers and other individuals.

Principal Capital Management provides asset management services to our U.S. asset accumulation businesses and third-party institutional clients, as well as our other U.S.-based segments. We established Principal Capital Management in 1999 to consolidate our extensive investment management expertise and to focus on marketing our asset management services to third-party institutional clients. We believe that Principal Capital Management is well-positioned to compete in this third-party institutional market through its expertise gained from managing a significant percentage of the assets originating from our U.S. asset accumulation operations. As of March 31, 2001, Principal Capital Management managed $81.8 billion in assets.

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION. Our International Asset Management and Accumulation segment consists of BT Financial Group and Principal International. Our acquisition of BT Financial Group in 1999 was a central element in the expansion of our international asset management and accumulation businesses. As of March 31, 2001, BT Financial Group was the fourth largest asset manager in Australia according to ASSIRT. As of March 31, 2001, BT Financial Group managed $21.0 billion in assets. We believe that the mandated retirement savings system in Australia, called superannuation, and BT Financial Group's strong market position, together with the expertise we have developed in the U.S. pension market, should provide for growth in our assets under management in Australia. The activities of Principal International reflect our efforts to capitalize on the trend toward private sector defined contribution pension systems. Through Principal International, we offer retirement products and services, annuities, mutual funds and life insurance. We operate through subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong and joint ventures in Brazil, Japan and India.

LIFE AND HEALTH INSURANCE. Our Life and Health Insurance segment offers individual life and disability insurance as well as group life and health insurance throughout the United States. Our individual life and disability insurance business served approximately 750,000 policyholders with $80.8 billion of life insurance in force as of March 31, 2001. Our individual insurance products include interest-sensitive life, traditional life and disability insurance. Our group insurance business served approximately 82,000 employers covering approximately 5.0 million members and had $71.5 billion of group life insurance in force as of March 31, 2001. Our group insurance products include life, disability, medical, dental and vision insurance, and administrative services.

MORTGAGE BANKING. Our Mortgage Banking segment engages in originating, purchasing, selling and servicing residential mortgage loans in the United States. We service a majority of the loans that we originate. We originated or purchased $8.3 billion in new mortgage loans for the year ended December 31, 2000 and serviced a portfolio of $57.3 billion of mortgage loans as of March 31, 2001. Residential mortgages represent a component of our overall portfolio of market-driven financial products and services.

OUR STRATEGIES AND OPERATING PRINCIPLES

We seek to enhance stockholder value by pursuing the most attractive financial services opportunities consistent with the capabilities of our asset management and accumulation operations. We intend to accomplish this goal by increasing the growth and profitability of these businesses through the pursuit of the following primary strategic initiatives:

ACCELERATE THE GROWTH OF OUR U.S. ASSET ACCUMULATION BUSINESS. We intend to strengthen our existing distribution channels and expand into new distribution channels, further leverage our technology to achieve operating efficiencies, continue to expand the range of investment options and effectively cross-sell our products and services.

GROW OUR THIRD-PARTY INSTITUTIONAL ASSETS UNDER MANAGEMENT. We selectively target asset classes and customers in the United States, Australia and globally to capitalize on the specific strengths of Principal Capital Management and BT Financial Group. They jointly execute this strategy in their respective markets and through marketing offices in London, Hong Kong and Singapore.

INCREASE THE GROWTH AND PROFITABILITY OF PRINCIPAL INTERNATIONAL. We will continue to leverage our U.S. product expertise and operating platform to strengthen Principal International. We seek to accelerate the growth of our assets under management by capitalizing on the international trend toward privatization of public retirement pension systems. In addition, we intend to continue our progress in managing expenses.

In addition to these primary strategic initiatives, we have specific strategies within each of our operating segments, which are described in the "Business" section of this prospectus.

The following operating principles support our primary and segment-specific strategies:

- OPERATE A FULL-SERVICE PLATFORM. We operate a full-service platform to serve the wide array of our customers' needs by originating sales through our diverse distribution channels, offering a comprehensive portfolio of products and services, administering these products and services efficiently using information technology and managing a significant portion of the assets for our customers.

- BUILD ON STRONG CUSTOMER RELATIONSHIPS. We are committed to building on our strong customer relationships by providing products and services that respond to their needs and by increasing the global awareness of our brand.

- FOCUS ON FINANCIAL PERFORMANCE. We have taken specific actions to improve our operating earnings over the last several years, and we intend to continue to focus each of our businesses to further improve financial performance by:

  - managing capital effectively;

  - improving cost management; and

  - actively managing our investment portfolio.

- REINFORCE OUR CULTURE. We are committed to strengthening our organization's performance-oriented culture through a new incentive compensation program, a management evaluation system and a stock option plan, each designed to enhance performance.

THE DEMUTUALIZATION

The offering of our shares is made in connection with the conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company in a process called a demutualization. Upon demutualization, the membership interests of Principal Life's policyholders in Principal Mutual Holding Company will be extinguished, and eligible policyholders will receive compensation in exchange for the extinguishment of their membership interests. Their compensation will be in the form of our common stock, cash or policy credits, depending upon, among other things, the type of policy or policyholder.

In order for the demutualization to be consummated and for this offering to occur, the plan of conversion must have been approved by the policyholders entitled to vote on the plan of conversion and by the Insurance Commissioner of the State of Iowa. In addition, the effectiveness of the demutualization and the closing of this offering are conditioned on their simultaneous occurrence.

We are currently a wholly-owned subsidiary of Principal Mutual Holding Company. The demutualization of Principal Mutual Holding Company includes the following steps, all of which will occur on the date of the closing of this offering:

- Principal Mutual Holding Company will convert from a mutual insurance holding company into a stock company;
- all membership interests of Principal Life's policyholders in Principal Mutual Holding Company will be extinguished;
- the converted Principal Mutual Holding Company will merge with and into one of our wholly-owned subsidiaries;
- we will sell shares of our common stock to the public in this offering;
- policyholders entitled to receive compensation in the demutualization will receive shares of our common stock, cash or policy credits as compensation for the extinguishment of their membership interests in Principal Mutual Holding Company no later than 75 days after the closing of this offering, unless the Insurance Commissioner of the State of Iowa approves a later date; and
- we will contribute to Principal Life all or a portion of the net proceeds from this offering, as described in "Use of Proceeds".

In addition to this offering, we may also conduct a private placement of our common stock, a private placement or public offering of convertible preferred stock, a private placement or public offering of debt or seek other sources of capital. The primary purpose of any of these capital raising transactions would be to fund cash and policy credit elections.

When the demutualization and this offering are complete, we will be a public company and will indirectly own 100% of the common stock of Principal Life and other operating subsidiaries of the Principal Financial Group.

EXCHANGE RATE TRANSLATION

We translated balance sheet data and assets under management at the appropriate end of period exchange rate. We translated income statement data and asset flow data at the average exchange rate for the appropriate period. For BT Financial Group, the following end of period exchange rates and average exchange rates were used for the periods indicated:

EXCHANGE RATE
BT FINANCIAL GROUP

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
END OF PERIOD EXCHANGE RATES	A$ 1.0000 = US$0.4883	A$ 1.0000 = US$0.5556	A$ 1.0000 = US$0.6543	A$ 1.0000 = US$0.6133
AVERAGE EXCHANGE RATES	A$ 1.0000 = US$0.5193	A$ 1.0000 = US$0.5738	A$ 1.0000 = US$0.6499	

These rates are based on noon rates of exchange provided by a third party financial data source. At May 24, 2001, the noon rate of exchange was A$1:US$0.5195. We used the same methodology for translating the various currencies of Principal International's subsidiaries and joint ventures.

OUR PRINCIPAL EXECUTIVE OFFICES ARE LOCATED AT 711 HIGH STREET, DES MOINES, IOWA 50392.
OUR TELEPHONE NUMBER IS (515) 247-5111.

THE OFFERING

Common stock offered	109,526,316 shares, assuming an initial public offering price of $19.00 per share.
Common stock outstanding after the offering	370,000,000 shares, assuming an initial public offering price of $19.00 per share.
Use of proceeds	Assuming an initial public offering price of $19.00 per share, our net proceeds from the offering will be approximately $1,987.1 million, or $2,286.0 million if the underwriters exercise their option to purchase additional shares in full. We will contribute all or a portion of the net proceeds to Principal Life to fund (1) policy credits and cash payments for policyholders for whom policy credits or cash are the required form of compensation; (2) the elections for cash and the elections or deemed elections for ACCOUNT VALUE POLICY CREDITS that are attributable to policyholders entitled to these forms of compensation; and (3) an amount equal to the fees and expenses of the demutualization paid by Principal Life. We may retain up to $250.0 million of any remaining proceeds. We will contribute any remaining proceeds in excess of this $250.0 million limit to Principal Life.
Dividend policy	Subject to our financial condition and declaration by our board of directors, we currently intend to pay regular annual cash dividends on our common stock. We currently intend to declare an annual cash dividend of $0.25 per share on our common stock. We expect that our first annual cash dividend will be a proportion of that amount, based on the number of months remaining in the calendar year in which we become public. See "Stockholder Dividend Policy".
Proposed New York Stock Exchange symbol	PFG

Unless we specifically state otherwise, the information in this prospectus does not take into account the sale of up to 16,428,947 additional shares of our common stock, which the underwriters have the option to purchase from us to cover over-allotments.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table provides summary historical consolidated financial information of Principal Mutual Holding Company, the predecessor to Principal Financial Group, Inc. prior to the demutualization, and will be applicable to Principal Financial Group, Inc. following the demutualization. The consolidated financial information for each of the years ended December 31, 2000, 1999 and 1998 and as of December 31, 2000 and 1999 has been derived from our audited consolidated financial statements and notes to the financial statements included in this prospectus. The consolidated financial information for the years ended December 31, 1997 and 1996 and as of December 31, 1998, 1997 and 1996 has been derived from our audited consolidated financial statements not included in this prospectus. The summary consolidated financial information for the three months ended March 31, 2001 and 2000 and as of March 31, 2001 has been derived from our unaudited interim consolidated financial statements included in this prospectus. The summary consolidated financial information as of March 31, 2000 has been derived from our unaudited interim consolidated financial statements not included in this prospectus. All unaudited interim consolidated financial information presented in the table below reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations for such periods. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year. The following summary consolidated financial information, other than the Principal Life statutory data, has been prepared in accordance with U.S. generally accepted accounting principles, or GAAP.

The following is a summary and, in order to fully understand our consolidated financial information, you should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to the financial statements included in this prospectus. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,				
	2001(2)	2000(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
	($ IN MILLIONS)						
INCOME STATEMENT DATA:(1)							
Revenues:							
Premiums and other considerations	$1,064.2	$1,014.4	$3,996.4	$3,937.6	$3,818.4	$4,667.8	$5,120.9
Fees and other revenues	413.0	396.4	1,576.3	1,287.3	978.8	881.9	722.4
Net investment income	839.7	789.5	3,172.3	3,072.0	2,933.9	2,936.6	2,894.0
Net realized capital gains (losses)	(80.9)	70.3	139.9	404.5	465.8	175.3	387.8
Total revenues	2,236.0	2,270.6	8,884.9	8,701.4	8,196.9	8,661.6	9,125.1
Expenses:							
Benefits, claims and settlement expenses	1,391.9	1,319.6	5,232.3	5,260.9	5,089.0	5,632.5	6,086.5
Dividends to policyholders	81.0	75.4	312.7	304.6	298.7	299.3	298.5
Operating expenses	622.7	593.2	2,479.4	2,070.3	2,074.0	2,035.5	1,909.8
Total expenses	2,095.6	1,988.2	8,024.4	7,635.8	7,461.7	7,967.3	8,294.8
Income before income taxes and cumulative effect of accounting change	140.4	282.4	860.5	1,065.6	735.2	694.3	830.3
Income taxes	24.4	89.3	240.3	323.5	42.2	240.8	304.3
Income before cumulative effect of accounting change	116.0	193.1	620.2	742.1	693.0	453.5	526.0
Cumulative effect of accounting change, net of related income taxes	(10.7)	--	--	--	--	--	--
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0	$ 453.5	$ 526.0

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,				
	2001(2)	2000(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
	($ IN MILLIONS)						
BALANCE SHEET DATA:(1)							
Invested assets	$44,002.6	$41,771.1	$42,090.6	$41,343.2	$40,686.7	$39,572.2	$38,658.3
Separate account assets	31,638.8	36,369.6	34,916.2	34,992.3	29,009.3	23,560.1	17,166.3
All other assets	6,771.0	6,662.1	7,250.2	7,496.7	4,247.3	3,921.4	3,317.7
Total assets	$82,412.4	$84,802.8	$84,257.0	$83,832.2	$73,943.3	$67,053.7	$59,142.3
Policyholder liabilities	$38,763.7	$37,652.2	$38,095.7	$37,687.9	$35,781.7	$35,224.6	$34,725.3
Separate account liabilities	31,638.8	36,369.6	34,916.2	34,992.3	29,009.3	23,560.1	17,166.3
Short-term debt	550.1	766.2	459.5	547.3	290.9	313.7	198.5
Long-term debt	1,294.1	1,519.6	1,336.5	1,492.9	670.9	458.9	399.1
All other liabilities	3,724.9	2,795.0	3,196.6	3,558.9	2,523.3	2,212.2	1,998.6
Total liabilities	$75,971.6	$79,102.6	$78,004.5	$78,279.3	$68,276.1	$61,769.5	$54,487.8
Retained earnings	$ 6,417.8	$ 5,885.4	$ 6,312.5	$ 5,692.3	$ 4,950.2	$ 4,257.2	$ 3,803.7
Net unrealized gains (losses) on available-for-sale securities	319.9	(87.0)	129.9	(79.1)	745.9	1,037.5	859.7
Net foreign currency translation adjustment	(296.9)	(98.2)	(189.9)	(60.3)	(28.9)	(10.5)	(8.9)
Total equity	$ 6,440.8	$ 5,700.2	$ 6,252.5	$ 5,552.9	$ 5,667.2	$ 5,284.2	$ 4,654.5
PRINCIPAL LIFE STATUTORY DATA:(3)							
Premiums and deposits(4)	$ 1,264.7	$ 4,349.2	$15,653.3	$15,709.8	$14,120.3	$12,710.9	$12,156.2
Net income	131.7	222.4	912.6	713.7	511.4	432.2	415.0
Statutory capital and surplus	$ 3,058.9	$ 3,266.5	$ 3,356.4	$ 3,151.9	$ 3,031.5	$ 2,811.1	$ 2,503.5
Asset valuation reserve	887.6	968.4	919.8	953.8	966.9	1,087.9	1,005.0
Statutory capital and surplus and asset valuation reserve	$ 3,946.5	$ 4,234.9	$ 4,276.2	$ 4,105.7	$ 3,998.4	$ 3,899.0	$ 3,508.5
OTHER SUPPLEMENTAL DATA:							
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0	$ 453.5	$ 526.0
Less:							
Net realized capital gains (losses), as adjusted(5)	(47.9)	49.8	93.1	266.9	320.7	111.4	261.0
Non-recurring items(6)	(20.5)	--	(101.0)	--	104.8	--	--
Operating earnings	$ 173.7	$ 143.3	$ 628.1	$ 475.2	$ 267.5	$ 342.1	$ 265.0
Operating return on average equity (in percents)(7)	10.7%	8.8%	10.5%	8.9%	5.8%	8.5%	7.5%
Total return on average equity (in percents)(8)	8.7%	11.7%	10.3%	13.9%	15.1%	11.3%	14.9%
Operating earnings before amortization of goodwill and other intangibles	$ 186.6	$ 153.1	$ 670.8	$ 492.0	$ 304.0	$ 352.0	$ 273.7
Assets under management (in billions)	$ 113.0	$ 117.7	$ 117.5	$ 116.6	$ 80.4	$ 72.1	$ 63.0
Number of employees (actual)	17,363	16,668	17,473	17,129	15,970	17,637	17,010

We evaluate segment performance by segment operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and non-recurring events and transactions. Segment operating earnings is determined by adjusting GAAP net income for net realized capital gains and losses, as adjusted, and non-recurring items that we believe are not indicative of overall operating trends. While these items may be significant components in understanding and assessing our consolidated financial performance, we believe the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, recurring operations of our businesses. However, segment operating earnings are not a substitute for net income determined in accordance with GAAP.

The following table provides selected segment information as of or for the three months ended March 31, 2001 and 2000 and as of or for each of the years ended December 31, 2000, 1999 and 1998. The segment information is reported on a consolidated basis.

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,				AS OF OR FOR THE YEAR ENDED DECEMBER 31,			
	2001(2)		2000(2)		2000(2)		1999(2)	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
OPERATING EARNINGS DATA:								
Operating revenues:								
U.S. Asset Management and Accumulation(9)	$ 1,015.7	46%	$ 868.3	38%	$ 3,533.9	40%	$ 3,472.6	42%
International Asset Management and Accumulation	144.4	6	157.4	7	630.7	7	379.6	5
Life and Health Insurance	1,002.4	45	1,047.4	46	4,122.6	46	3,985.5	48
Mortgage Banking	119.6	5	97.7	5	359.8	4	398.3	5
Corporate and Other(9)(10)	35.0	2	29.0	1	97.1	1	61.9	1
Total operating revenues	$ 2,317.1	104%	$ 2,199.8	97%	$ 8,744.1	98%	$ 8,297.9	101%
Net realized capital gains (losses), including recognition of front-end fee revenues(5)	(81.1)	(4)	70.8	3	140.8	2	403.5	5
Total consolidated revenues	$ 2,236.0	100%	$ 2,270.6	100%	$ 8,884.9	100%	$ 8,701.4	106%
Operating earnings (loss):								
U.S. Asset Management and Accumulation	$ 88.8	51%	$ 88.7	62%	$ 356.6	57%	$ 356.6	75%
International Asset Management and Accumulation	(5.3)	(3)	(4.5)	(3)	(8.5)	(1)	(38.4)	(8)
Life and Health Insurance	42.5	24	36.6	25	162.3	26	90.7	19
Mortgage Banking	23.9	14	18.0	13	50.0	8	56.8	12
Corporate and Other	23.8	14	4.5	3	67.7	10	9.5	2
Total operating earnings	$ 173.7	100%	$ 143.3	100%	$ 628.1	100%	$ 475.2	100%
INCOME STATEMENT DATA:								
Net income (loss):								
U.S. Asset Management and Accumulation	$ 70.6	67%	$ 69.9	36%	$ 320.7	52%	$ 321.2	70%
International Asset Management and Accumulation	(25.6)	(24)	0.2	--	(7.1)	(1)	(30.7)	(7)
Life and Health Insurance	42.0	40	91.4	48	209.6	34	100.8	22
Mortgage Banking	23.9	22	18.0	9	50.0	8	56.8	12
Corporate and Other	(5.6)	(5)	13.6	7	47.0	7	294.0	64
Total net income	$ 105.3	100%	$ 193.1	100%	$ 620.2	100%	$ 742.1	161%
BALANCE SHEET DATA:								
Total assets:								
U.S. Asset Management and Accumulation	$64,144.6	78%	$66,312.3	78%	$65,795.9	78%	$65,096.4	78%
International Asset Management and Accumulation	4,928.1	6	5,550.8	7	5,525.9	7	5,926.8	7
Life and Health Insurance	10,406.6	13	10,080.9	12	10,421.1	12	9,949.8	12
Mortgage Banking	1,915.2	2	1,793.9	2	1,556.3	2	1,737.7	2
Corporate and Other(11)	1,017.9	1	1,064.9	1	957.8	1	1,121.5	1
Total assets	$82,412.4	100%	$84,802.8	100%	$84,257.0	100%	$83,832.2	100%
OTHER SUPPLEMENTAL DATA:								
Assets Under Management:								
($ in billions)								
U.S. Asset Management and Accumulation	$ 76.6	69%	$ 75.0	64%	$ 78.1	67%	$ 75.6	65%
International Asset Management and Accumulation	25.1	22	29.8	25	28.4	24	30.6	26
Life and Health Insurance	9.4	8	9.1	8	9.3	8	8.7	7
Mortgage Banking(12)	0.4	--	1.8	1	0.2	--	0.5	--
Corporate and Other	1.5	1	2.0	2	1.5	1	1.2	1
Total assets under management	$ 113.0	100%	$ 117.7	100%	$ 117.5	100%	$ 116.6	100%

	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	1999(2)	1998(2)	
	% OF TOTAL	AMOUNT	% OF TOTAL
		($ IN MILLIONS)	
OPERATING EARNINGS DATA:			
Operating revenues:			
U.S. Asset Management and Accumulation(9)	40%	$ 2,933.1	36%

International Asset Management and Accumulation	4	223.1	3
Life and Health Insurance	46	3,893.1	47
Mortgage Banking	4	340.6	4
Corporate and Other(9)(10)	1	342.5	4
Total operating revenues	95%	$ 7,732.4	94%
Net realized capital gains (losses), including recognition of front-end fee revenues(5)	5	464.5	6
Total consolidated revenues	100%	$ 8,196.9	100%
Operating earnings (loss):			
U.S. Asset Management and Accumulation	75%	$ 238.4	89%
International Asset Management and Accumulation	(8)	(35.4)	(13)
Life and Health Insurance	19	50.0	19
Mortgage Banking	12	58.8	22
Corporate and Other	2	(44.3)	(17)
Total operating earnings	100%	$ 267.5	100%
INCOME STATEMENT DATA:			
Net income (loss):			
U.S. Asset Management and Accumulation	43%	$ 277.0	40%
International Asset Management and Accumulation	(4)	(10.1)	(1)
Life and Health Insurance	13	112.0	16
Mortgage Banking	8	58.8	8
Corporate and Other	40	255.3	37
Total net income	100%	$ 693.0	100%
BALANCE SHEET DATA:			
Total assets:			
U.S. Asset Management and Accumulation	78%	$58,701.5	80%
International Asset Management and Accumulation	7	1,239.4	2
Life and Health Insurance	12	9,116.1	12
Mortgage Banking	2	1,810.4	2
Corporate and Other(11)	1	3,075.9	4
Total assets	100%	$73,943.3	100%
OTHER SUPPLEMENTAL DATA:			
Assets Under Management:			
($ in billions)			
U.S. Asset Management and Accumulation	65%	$ 67.2	84%
International Asset Management and Accumulation	26	1.2	1
Life and Health Insurance	8	8.2	10
Mortgage Banking(12)	--	0.7	1
Corporate and Other	1	3.1	4
Total assets under management	100%	$ 80.4	100%

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(1) Periods prior to December 31, 2000 have been reclassified to conform to the presentation for that period.

(2) Our consolidated financial results were affected by the following transactions that affect year-to-year comparability:

- On February 15, 2001, we disposed of all of the stock of Principal International Espana, S.A. de Seguros de Vida, our subsidiary in Spain, for nominal proceeds, resulting in a net realized capital loss of $38.4 million, ceasing our business operations in Spain. Total assets of our operations in Spain as of December 31, 2000 were $222.7 million. Revenues of $24.1 million from our operations in Spain were included in our consolidated results of operations for the three months ended March 31, 2000, and revenues of $49.4 million, $51.7 million and $46.0 million were included in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. We included net income of $3.3 million from our operations in Spain for the three months ended March 31, 2000, and a net loss of $1.2 million and net income of $0.9 million and $2.8 million in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. Our consolidated results of operations for the three months ended March 31, 2001 did not include revenues or net income from our operations in Spain.

- On August 31, 1999, we acquired several companies affiliated with Bankers Trust Australia Group from Deutsche Bank AG at a purchase price of $1.4 billion. The acquired companies now operate under the name BT Financial Group. We accounted for the acquisition using the purchase method. We included the results of operations of the acquired companies in our International Asset Management and Accumulation segment and our consolidated financial statements from the date of acquisition. Revenues of $63.5 million and net loss of $5.6 million were included in our consolidated results of operations for the three months ended March 31, 2001. Revenues of $72.7 million and net income of $0.5 million were included in our consolidated results of operations for the three months ended March 31, 2000. Revenues of $285.5 million and net income of $6.5 million were included in our consolidated results of operations for the year ended December 31, 2000. Revenues of $116.5 million and net loss of $3.1 million were included in our consolidated results of operations for the year ended December 31, 1999. We accounted for the purchase price as follows: $897.4 million of identifiable intangibles, consisting primarily of management rights and the BT brand name, $38.5 million of workforce intangibles and $408.6 million of resulting goodwill, which are being amortized on a straight line basis over 40 years, 8 years and 25 years, respectively.

- We acquired Compania de Seguros de Vida El Roble S.A., or El Roble, a Chilean life insurance company, for a purchase price of $73.4 million in July 1998. We included El Roble's financial results in our International Asset Management and Accumulation segment. We combined the operations of our existing Chilean life insurance affiliate with the operations of El Roble to form Principal International de Chile. Our consolidated financial results related to these companies' combined operations include: total revenues of $47.0 million and $48.4 million for the three months ended March 31, 2001 and 2000, respectively, and $200.2 million, $178.1 million and $155.2 million for the years ended December 31, 2000, 1999 and 1998, respectively; and net income of $2.4 million and $2.3 million for the three months ended March 31, 2001 and 2000, respectively, and $10.2 million, $0.5 million and $17.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

- In July 1998, we established our residential mortgage loan wholesale distribution system, a new distribution channel, by acquiring ReliaStar Mortgage Corporation for a purchase price of $18.6 million. We have integrated the operations of ReliaStar Mortgage Corporation into Principal Residential Mortgage, Inc., as part of our Mortgage Banking segment.

- Effective April 1, 1998, we transferred substantially all of our health maintenance organization operations, or HMO operations, to Coventry Health Care, Inc., or Coventry, in exchange for 42% of their common stock. Our net equity in the transferred HMO operations had a carrying value of $170.0 million on April 1, 1998. We sold our remaining HMO operations in 1998 for $20.5 million resulting in no realized capital gain or loss. Prior to the transfer to Coventry, our Corporate and Other segment included $266.7 million of HMO revenues in our results for 1998. We report our investment in Coventry in our Corporate and Other segment and account for it using the equity method. Our share of Coventry's net income was $4.9 million and $6.0 million for the three months ended March 31, 2001 and 2000, respectively, and $20.0 million and $19.1 million for the years ended December 31, 2000 and 1999, respectively. Our share of Coventry's net loss was $9.8 million for the year ended December 31, 1998. In September 2000, we sold a portion of our Coventry stock, which reduced our ownership interest to approximately 25% of Coventry stock and resulted in a net realized capital gain of $13.9 million, net of tax. Our carrying amount in Coventry was $128.9 million as of March 31, 2001.

(3) Statutory data have been provided from quarterly and annual statements of Principal Life filed with insurance regulatory authorities. Certain financial information for periods beginning on or after January 1, 2001 are not comparable to information from earlier periods. Statutory data as of or for the three months ended March 31, 2001 were prepared in conformity with the NAIC Codification of Statutory Accounting Principles ("Codification"), adopted as prescribed and permitted by the Insurance Division, Department of Commerce of the State of Iowa, effective January 1, 2001. As allowed by Codification, prior period information was not restated. Statutory data as

of or for the three months ended March 31, 2000 and as of or for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 were prepared in conformity with accounting practices prescribed or permitted on the dates thereof by the Insurance Division, Department of Commerce of the State of Iowa.

(4) Codification, as adopted by Principal Life on January 1, 2001, has significantly impacted the reporting of Principal Life's statutory premiums and deposits for the three months ended March 31, 2001. Under Codification, amounts received for deposit-type contracts are no longer reported in the statement of operations as revenue, but rather are reported directly as an increase in an appropriate policy reserve account, a treatment that is similar to that under U.S. GAAP. This has the effect of decreasing reported total revenues and total expenses of Principal Life, with no effect to statutory net income or statutory surplus. Premiums and deposits for the three months ended March 31, 2000, and for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 included amounts received for deposit-type contracts of $3,190.0 million, $11,273.2 million, $11,571.5 million, $10,312.6 million, $8,694.9 million and $7,493.9 million, respectively.

(5) Net realized capital gains (losses), as adjusted, are net of tax, related changes in the amortization pattern of deferred policy acquisition costs, recognition of front-end fee revenues for sales charges on pension products and services and net realized capital gains credited to customers. This presentation may not be comparable to presentations made by other companies. Deferred policy acquisition costs represent commissions and other selling expenses that vary with and are directly related to the production of business. These acquisition costs are deferred and amortized in conformity with GAAP.

Following is a reconciliation of net realized capital gains from the consolidated financial statements and the adjustment made to calculate segment operating earnings for the periods indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,				
	2001	2000	2000	1999	1998	1997	1996
	($ IN MILLIONS)						
Net realized capital gains (losses)	$(80.9)	$ 70.3	$139.9	$ 404.5	$ 465.8	$175.3	$ 387.8
Recognition of front-end fee revenues	(0.2)	0.5	0.9	(1.0)	(1.3)	(0.9)	--
Net realized capital gains (losses), including recognition of front-end fee revenues	(81.1)	70.8	140.8	403.5	464.5	174.4	387.8
Amortization of deferred policy acquisition costs related to net realized capital gains (losses)	1.0	0.2	(0.3)	4.4	5.7	(1.7)	--
Amounts credited to contractholder accounts	--	--	--	--	(26.3)	--	--
Non-recurring net realized capital gains (losses)	--	--	--	--	(1.7)	--	--
Net realized capital gains (losses), including recognition of front-end fee revenues, net of related amortization of deferred policy acquisition costs and amounts credited to contractholders	(80.1)	71.0	140.5	407.9	442.2	172.7	387.8
Income tax effect	32.2	(21.2)	(47.4)	(141.0)	(121.5)	(61.3)	(126.8)
Net realized capital gains (losses), as adjusted	$(47.9)	$ 49.8	$ 93.1	$ 266.9	$ 320.7	$111.4	$ 261.0

(6) For the three months ended March 31, 2001, we excluded $20.5 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included the negative effects of (a) a cumulative effect of accounting change related to our implementation of SFAS 133 ($10.7 million), as discussed in Note 2 to Principal Mutual Holding Company's unaudited consolidated financial statements; (b) a loss contingency reserve established for sales practices litigation ($5.9 million); and (c) expenses related to our demutualization ($3.9 million).

For the three months ended March 31, 2000, we did not exclude non-recurring items from net income for our presentation of operating earnings.

For the year ended December 31, 2000, we excluded $101.0 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included the negative effects of (a) a

loss contingency reserve established for sales practices litigation ($93.8 million) and (b) expenses related to our demutualization ($7.2 million).

For the year ended December 31, 1998, we excluded $104.8 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included:

- the positive effects of (a) Principal Life's release of tax reserves and related accrued interest ($164.4 million) and (b) accounting changes by our international operations ($13.3 million); and

- the negative effects of (a) expenses and adjustments for changes in amortization assumptions for deferred policy acquisition costs related to our corporate structure change to a mutual insurance holding company ($27.4 million) and (b) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

(7) We define operating return on average equity as operating earnings divided by average total equity, excluding accumulated other comprehensive income. The returns for interim reporting periods are calculated by using operating earnings for the trailing twelve months. Accumulated other comprehensive income has been excluded due to its volatility between periods and because such data are often excluded when evaluating the overall financial performance of insurers. Operating return on average equity should not be considered a substitute for any GAAP measure of performance.

(8) We define total return on average equity as net income divided by average total equity, excluding accumulated other comprehensive income. The returns for interim reporting periods are calculated by using net income for the trailing twelve months. Accumulated other comprehensive income has been excluded due to its volatility between periods and because such data are often excluded when evaluating the overall financial performance of insurers.

(9) We transferred our U.S. investment management operations from our Corporate and Other segment to our U.S. Asset Management and Accumulation segment effective January 1, 1999. The U.S. Asset Management and Accumulation segment received fee revenues for performing investment management services for other segments in 2001, 2000 and 1999. The Corporate and Other segment received fee revenues for performing investment management services for other segments prior to 1999.

(10) Includes inter-segment eliminations primarily related to real estate joint venture rental income. The Corporate and Other segment reported rental income from real estate joint ventures for office space used by other segments.

(11) Includes inter-segment elimination amounts related to internally generated mortgage loans and an internal line of credit. The U.S. Asset Management and Accumulation segment and Life and Health Insurance segment reported mortgage loan assets issued for real estate joint ventures. These mortgage loans were reported as liabilities in the Corporate and Other segment. In addition, the Corporate and Other segment managed a revolving line of credit used by other segments.

(12) Excludes our mortgage loan servicing portfolio.

RISK FACTORS

An investment in our common stock involves a number of risks. You should consider carefully, in addition to the other information contained in this prospectus, the following factors before investing in shares of our common stock. In reviewing information contained in this prospectus, you should bear in mind that past experience is no indication of future performance.

COMPETITION FROM COMPANIES THAT MAY HAVE GREATER FINANCIAL RESOURCES, BROADER ARRAYS OF PRODUCTS, HIGHER RATINGS AND STRONGER FINANCIAL PERFORMANCE MAY IMPAIR OUR ABILITY TO RETAIN EXISTING CUSTOMERS, ATTRACT NEW CUSTOMERS AND MAINTAIN OUR PROFITABILITY.

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

Each of our segments faces strong competition. The primary competitors for our U.S. Asset Management and Accumulation segment are asset managers, banks, broker-dealers and insurers. Our ability to increase and retain assets under management is directly related to the performance of our investments as measured against market averages and the performance of our competitors. Even when securities prices are generally rising, performance can be affected by investment styles. For example, as growth stocks have outperformed value stocks in recent years, we have been at a competitive disadvantage due to our historical emphasis on the value style of investing. Principal Capital Management may also be at a disadvantage in competing for investment management personnel due to its location in Des Moines.

Competition for our International Asset Management and Accumulation segment comes primarily from local financial services firms and other international companies operating on a stand-alone basis or in partnership with local firms. Our Life and Health Insurance segment competes with insurers and health maintenance organizations. We compete with other mortgage bankers, commercial banks, savings and loan associations, credit unions and other insurers in our Mortgage Banking segment.

National banks, with their large existing customer bases, may increasingly compete with insurers as a result of court rulings allowing national banks to sell annuity products in some circumstances, and as a result of recently enacted legislation removing restrictions on bank affiliations with insurers. Specifically, the Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms under one holding company. These developments may increase competition, in particular for our asset management and accumulation businesses, by substantially increasing the number, size and financial strength of potential competitors who may be able to offer, due to economies of scale, more competitive pricing than we can.

A DECLINE OR INCREASED VOLATILITY IN THE SECURITIES MARKETS COULD RESULT IN INVESTORS WITHDRAWING FROM THE MARKETS OR DECREASING THEIR RATE OF INVESTMENT, EITHER OF WHICH COULD REDUCE OUR NET INCOME, REVENUES AND ASSETS UNDER MANAGEMENT.

Favorable performance by the U.S., European and Australian securities markets over the last five years has substantially increased investments in these markets and has benefited our asset management and accumulation businesses and increased our assets under management. In contrast to the U.S., European and Australian securities markets, the securities markets in the emerging economies in which we operate or invest, such as Indonesia or Argentina, have experienced during this period economic disruption, devaluations of their currencies or negative growth rates, which have suppressed our revenues and profits. In addition, because the revenues of our asset management businesses are, to a large extent, based on the value of assets under management, a decline in the value of these assets would also decrease our revenues. Failure of the U.S., European and Australian securities markets to continue the favorable performance they have experienced over the last five years could lead to investors withdrawing from the markets, decreasing their rate of investment or refraining from new investments which may reduce our net income, revenues and assets under management. Our assets, earnings and ability to generate new sales in recent years have also increased due to significant growth in the retirement-oriented investment market. Some of that growth is attributable to the expansion of non-U.S. government mandated retirement savings programs. If these programs are reduced or eliminated, our net income, revenues and assets would suffer.

A DOWNGRADE IN PRINCIPAL LIFE'S FINANCIAL STRENGTH RATINGS MAY INCREASE POLICY SURRENDERS AND WITHDRAWALS, REDUCE NEW SALES AND TERMINATE RELATIONSHIPS WITH DISTRIBUTORS.

Financial strength ratings are important factors in establishing the competitive position of insurance companies. A rating downgrade, or the potential for such a downgrade, of Principal Life could, among other things:

- materially increase the number of policy or contract surrenders for all or a portion of their net cash values and withdrawals by policyholders of cash values from their policies;

- result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services; and

- reduce new sales, particularly with respect to general account guaranteed investment contracts and funding agreements purchased by pension plans and other institutions.

See "Business -- Ratings".

OUR EFFORTS TO REDUCE THE IMPACT OF INTEREST RATE CHANGES ON OUR PROFITABILITY AND SURPLUS MAY NOT BE EFFECTIVE.

We attempt to significantly reduce the impact of changes in interest rates on the profitability and surplus of our asset accumulation and life and health insurance operations. We accomplish this reduction primarily by managing the duration of our assets relative to the duration of our liabilities. During a period of rising interest rates, policy surrenders, withdrawals and requests for policy loans may increase as customers seek to achieve higher returns. Despite our efforts to reduce the impact of rising interest rates, we may be required to sell assets to raise the cash necessary to respond to such surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold. An increase in policy surrenders and withdrawals may also require us to accelerate amortization of policy acquisition costs relating to these contracts, which would further reduce our net income.

During periods of low interest rates, borrowers may prepay or redeem mortgages and bonds that we own, which would force us to reinvest the proceeds at lower interest rates. For some of our products, such as guaranteed investment contracts and funding agreements, we are unable to lower the rate we credit to customers in response to the lower return we will earn on our investments. In addition, it may be more difficult for us to maintain our desired spread between the investment income we earn and the interest we credit to our customers during periods of low interest rates thereby reducing our profitability.

Changes in interest rates can also significantly affect the profitability of our Mortgage Banking segment. During periods of declining interest rates, we may lose mortgage loan servicing fees due to an increase in mortgage loan refinancing activity. During periods of rising interest rates, we may suffer a loss of mortgage loan origination fees due to a decrease in the overall number of home sales and the number of mortgage loan refinancings. For further discussion on interest rate risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quantitative and Qualitative Information About Market Risk -- Interest Rate Risk".

IF WE ARE UNABLE TO ATTRACT AND RETAIN SALES REPRESENTATIVES AND DEVELOP NEW DISTRIBUTION SOURCES, SALES OF OUR PRODUCTS AND SERVICES MAY BE REDUCED.

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

For example, Rogers Benefit Group, a national independent marketing and service organization, distributes a significant portion of our group insurance products. For the year ended March 31, 2001, Rogers Benefit Group accounted for 35% of our group insurance sales. An interruption in or changes to our relationship with Rogers Benefit Group could impair our ability to market our group insurance products and reduce our revenues accordingly.

OUR INTERNATIONAL BUSINESSES FACE POLITICAL, LEGAL, OPERATIONAL AND OTHER RISKS THAT COULD REDUCE OUR PROFITABILITY IN THOSE BUSINESSES.

Our international businesses are subject to comprehensive regulation and supervision from central and/or local governmental authorities in each country in which we operate. New interpretations of existing laws and regulations or the adoption of new laws and regulations may harm our international businesses and reduce our profitability in those businesses. In particular, BT Financial Group's profit could suffer if the Australian superannuation system is repealed or amended to a lower rate of contribution.

Our international businesses face political, legal, operational and other risks that we do not face in our operations in the U.S. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some of our international businesses are, and are likely to continue to be, in emerging markets such as Indonesia and India where these risks are heightened. In addition, we rely on local staff, including local sales forces, in these countries and we may encounter labor problems especially in countries such as Mexico, Argentina and Brazil where workers'

associations and trade unions are strong. If our business model is not successful in a particular country, we may lose all or most of our investment in that country.

FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES COULD REDUCE OUR PROFITABILITY.

Principal International generally writes policies denominated in various local currencies and invests the premiums and deposits in local currencies. Although investing in local currencies limits the effect of currency exchange rate fluctuation on local operating results, fluctuations in such rates affect the translation of these results into our consolidated financial statements. BT Financial Group conducts its asset management operations in both local currencies and U.S. dollars. Accordingly, fluctuations in foreign currency exchange rates may reduce our profitability. For example, fluctuations in average foreign currency of our international operations to U.S. dollar exchange rates reduced our consolidated operating earnings by $0.2 million for the three months ended March 31, 2001, by $0.6 million for the year ended December 31, 2000, and by $0.3 million for the year ended December 31, 1999.

A DECLINE IN AUSTRALIAN EQUITY VALUES MAY REDUCE THE PROFITABILITY OF BT FINANCIAL GROUP'S MARGIN LENDING BUSINESS.

A decline in the Australian equity markets or short-term volatility in the Australian securities markets could result in investors withdrawing from the markets or decreasing their rate of investment and level of participation in the margin lending business, either of which could reduce the profitability of BT Financial Group's margin lending business. Additionally, short-term volatility in the securities markets could result in the placing of margin calls. An inability by borrowers under BT Financial Group's margin lending business to satisfy these margin calls may decrease our profits.

OUR RESERVES ESTABLISHED FOR FUTURE POLICY BENEFITS AND CLAIMS MAY PROVE INADEQUATE, REQUIRING US TO INCREASE LIABILITIES.

Our earnings depend significantly upon the extent to which our actual claims experience is consistent with the assumptions used in setting prices for our products and establishing liabilities for future insurance and annuity policy benefits and claims. The liability that we have established for future policy benefits is based on assumptions concerning a number of factors, including the amount of premiums that we will receive in the future, rate of return on assets we purchase with premiums received, expected claims, expenses and persistency, which is the measurement of the percentage of insurance policies remaining in force from year to year, as measured by premiums. However, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities. As a result, we may experience volatility in the level of our reserves from period to period, particularly for our health and disability insurance products. To the extent that actual claims experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

OUR INVESTMENT PORTFOLIO IS SUBJECT TO SEVERAL RISKS WHICH MAY DIMINISH THE VALUE OF OUR INVESTED ASSETS AND AFFECT OUR SALES, PROFITABILITY AND THE INVESTMENT RETURNS CREDITED TO OUR CUSTOMERS.

AN INCREASE IN DEFAULTS ON OUR FIXED MATURITY SECURITIES PORTFOLIO MAY REDUCE OUR PROFITABILITY.

We are subject to the risk that the issuers of the fixed maturity securities we own will default on principal and interest payments, particularly if a major downturn in economic activity occurs. As of March 31, 2001, our U.S. investment operations held $28.3 billion, or 66%, of total U.S. invested assets, of which approximately 8% were below investment grade, including $253.5 million, or 1%, of our total fixed maturity securities which we classified as either "problem," "potential problem," or "restructured." See "Investments -- U.S. Investment Operations -- U.S. Investment Results -- Fixed Maturity Securities." As of March 31, 2001, our international investment operations held $0.8 billion, or 71%, of total international invested assets. Some of these securities have been rated on the basis of the issuer's country credit rating while others have not been rated by external agencies, which makes the assessment of credit quality more difficult. See "Investments -- International Investment Operations." An increase in defaults on our fixed maturity securities portfolio could harm our financial strength and reduce our profitability.

AN INCREASED RATE OF DELINQUENCY AND DEFAULTS ON OUR COMMERCIAL MORTGAGE LOANS, ESPECIALLY THOSE WITH BALLOON PAYMENTS, COULD DECREASE OUR PROFITABILITY.

Our commercial mortgage loan portfolio faces both delinquency and default risk. Commercial mortgage loans of $10.5 billion represented 24% of our total invested assets as of March 31, 2001. As of March 31, 2001, loans that were either delinquent or in the process of foreclosure totaled, on a statutory basis, $7.2 million, or 0.1%, of our commercial mortgage loan portfolio, compared to the industry average of 0.3% as reported by the American Council of Life Insurers as of March 31, 2001. The performance of our commercial mortgage loan portfolio, however, may fluctuate in the future. An increase in the delinquency rate of our commercial mortgage loan portfolio could harm our financial strength and decrease our profitability.

As of March 31, 2001, approximately $8.0 billion, or 75%, of our commercial mortgage loans before valuation allowance had balloon payment maturities. A balloon maturity is a loan with larger dollar amounts of payments becoming due in the later years of the loan. The default rate on commercial mortgage loans with balloon payment maturities has historically been higher than for commercial mortgage loans with standard repayment schedules. Since most of the principal is being repaid at maturity, the amount of loss on a default is generally greater than on other commercial mortgage loans. An increase in defaults on such loans as a result of the foregoing factors could harm our financial strength and reduce our net income.

WE MAY HAVE DIFFICULTY SELLING OUR PRIVATELY PLACED FIXED MATURITY SECURITIES, COMMERCIAL MORTGAGE LOANS AND REAL ESTATE INVESTMENTS BECAUSE THEY ARE LESS LIQUID THAN OUR PUBLICLY TRADED FIXED MATURITY SECURITIES.

As of March 31, 2001, our privately placed fixed maturity securities, commercial mortgage loans and real estate investments represented approximately 53% of the value of our invested assets. If we require significant amounts of cash on short notice, we may have difficulty selling these investments at attractive prices, in a timely manner, or both.

DERIVATIVE INSTRUMENTS MAY NOT BE HONORED BY COUNTERPARTIES RESULTING IN INEFFECTIVE HEDGING OF OUR RISKS.

We use derivative instruments to hedge various risks we face in our businesses. We enter into a variety of derivative instruments, including interest rate swaps, swaptions, currency swaps, financial futures and mortgage-backed security forward contracts, with a number of counterparties. If, however, our counterparties fail to honor their obligations under the derivative instruments, we will have failed to effectively hedge the related risk. That failure may harm our financial strength and reduce our profitability.

ENVIRONMENTAL LIABILITY EXPOSURE MAY RESULT FROM OUR COMMERCIAL MORTGAGE LOAN PORTFOLIO AND REAL ESTATE INVESTMENTS.

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

REGIONAL CONCENTRATION OF OUR COMMERCIAL MORTGAGE LOAN PORTFOLIO IN CALIFORNIA MAY SUBJECT US TO ECONOMIC DOWNTURNS OR LOSSES ATTRIBUTABLE TO EARTHQUAKES IN THAT STATE.

California accounted for 21%, or $2.3 billion, of our commercial mortgage loan portfolio as of March 31, 2001. Due to this concentration of commercial mortgage loans in California, we are exposed to potential losses resulting from the risk of an economic downturn in California as well as to catastrophes, such as earthquakes, that may affect the region. While we generally do not require earthquake insurance for properties on which we make commercial mortgage loans, we do take into account property specific engineering reports, construction type and geographical concentration by fault lines in our investment underwriting guidelines. If economic conditions in California deteriorate or catastrophes occur, we may experience delinquencies on the portion of our commercial mortgage loan portfolio located in California in the future, which may harm our financial strength and reduce our profitability.

OUR ABILITY TO PAY DIVIDENDS AND MEET OUR OBLIGATIONS MAY BE CONSTRAINED BY THE LIMITATION ON DIVIDENDS IOWA INSURANCE LAWS IMPOSE ON PRINCIPAL LIFE.

We are an insurance holding company whose assets include all of the outstanding shares of the common stock of Principal Life and other direct subsidiaries. Our ability to pay dividends to our stockholders and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Life. Iowa insurance laws impose limitations on the ability of Principal Life to pay dividends to us. Any inability of Principal Life to pay dividends to us in the future may cause us to be unable to pay dividends to our stockholders and meet our other obligations.

WE MAY NEED TO FUND DEFICIENCIES IN OUR CLOSED BLOCK; ASSETS ALLOCATED TO THE CLOSED BLOCK BENEFIT ONLY THE HOLDERS OF CLOSED BLOCK POLICIES.

In connection with its conversion in 1998 into a stock life insurance company, Principal Life established an accounting mechanism, known as a CLOSED BLOCK, for the benefit of participating ordinary life insurance policies that

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

We allocated assets to the Closed Block as of July 1, 1998 in an amount such that we expect their cash flows, together with anticipated revenues from the policies in the Closed Block, to be sufficient to support the Closed Block business, including payment of claims, expenses, charges and taxes and to provide for the continuation of aggregate dividend scales in accordance with the 1997 policy dividend scales if the experience underlying such scales continues, and to allow for appropriate adjustments in such scales if the experience changes. We bear the costs of expenses associated with Closed Block policies and, accordingly, these costs were not funded as part of the assets allocated to the Closed Block. Any increase in such costs in the future will be borne by us. As of March 31, 2001, Closed Block assets and liabilities were $4,568.8 million and $5,597.6 million, respectively. As of December 31, 2000, Closed Block assets and liabilities were $4,507.4 million and $5,547.8 million, respectively. As of December 31, 1999, Closed Block assets and liabilities were $4,317.4 million and $5,394.6 million, respectively.

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

The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies in the Closed Block will benefit only the holders of those policies. In addition, to the extent that these amounts are greater than the amounts estimated at the time we funded the Closed Block, dividends payable in respect of the policies included in the Closed Block may be greater than they would have been in the absence of a Closed Block. Any excess earnings will be available for distribution over time to Closed Block policyholders but will not be available to our stockholders.

CHANGES IN REGULATIONS OR ACCOUNTING STANDARDS MAY REDUCE OUR PROFITABILITY.

CHANGES IN REGULATION IN THE UNITED STATES MAY REDUCE OUR PROFITABILITY.

Our insurance business is subject to comprehensive state regulation and supervision throughout the U.S. The primary purpose of state regulation of the insurance business is to protect policyholders, not stockholders. The laws of the various states establish insurance departments with broad powers to regulate such matters as:

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

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, continually reexamine existing laws and regulations, and may impose changes in the future.

Federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulation and federal taxation can reduce our profitability. For example, Congress has, from time to time, considered legislation relating to changes in the Employee Retirement Income Security Act of 1974 to permit application of state law remedies, such as consequential and punitive damages, in lawsuits for wrongful denial of benefits, which, if adopted, could increase our liability for damages in future litigation. Additionally, new interpretations of existing laws

and the passage of new legislation may harm our ability to sell new policies and increase our claims exposure on policies we issued previously. In addition, reductions in contribution levels to defined contribution plans may decrease our profitability. See "Regulation -- U.S. Operations -- Federal Insurance Initiatives".

CHANGES IN FEDERAL TAXATION COULD REDUCE SALES OF OUR INSURANCE, ANNUITY AND INVESTMENT PRODUCTS.

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

REPEAL OR MODIFICATION OF THE FEDERAL ESTATE TAX COULD REDUCE OUR REVENUES.

Repeal or modification of the federal estate tax could reduce our revenues. Through the twelve months ended December 31, 2000, we received recurring premium of $43.9 million for survivorship life insurance policies we have sold. A significant number of these policies were purchased for the purpose of providing cash to pay federal estate taxes. Repeal or modification of the federal estate tax could result in policyholders reducing coverage under or surrendering these policies. See "Regulation -- U.S. Operations -- Tax Legislation".

CHANGES IN FEDERAL, STATE AND FOREIGN SECURITIES LAWS MAY REDUCE OUR PROFITABILITY.

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

WE MAY EXPERIENCE VOLATILITY IN NET INCOME DUE TO CHANGES IN STANDARDS FOR ACCOUNTING FOR DERIVATIVES.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 will require us to include all derivatives in our consolidated statement of financial position at fair value. The accounting for changes in the fair value of a derivative depends on its intended use. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. Derivatives not used in hedging activities must be adjusted to fair value through earnings. We adopted SFAS 133 effective January 1, 2001. The cumulative effect of the application of SFAS 133 included a negative effect of $10.7 million on net income and a negative effect of $14.2 million on accumulated other comprehensive income. During the three months ended March 31, 2001, we recognized the change in value related to cash flow hedges in accumulated other comprehensive income, and reclassified a gain from accumulated other comprehensive income to earnings, which was offset by net losses on the assets or liabilities being hedged. These amounts were not material. The impact of the application of SFAS 133 on net income during the three months ended March 31, 2001 was $6.1 million and the impact to accumulated other comprehensive income was $(10.0) million.

A CHALLENGE TO THE INSURANCE COMMISSIONER OF THE STATE OF IOWA'S APPROVAL OF THE PLAN OF CONVERSION COULD PUT THE TERMS OF OUR DEMUTUALIZATION IN QUESTION AND REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

After a public hearing, the Insurance Commissioner of the State of Iowa will determine whether to approve the plan of conversion. To approve the plan, the Insurance Commissioner of the State of Iowa must find that the plan meets the standards of Iowa law governing demutualizations, including, among other things, whether the plan is fair and equitable to Principal Mutual Holding Company and policyholders of Principal Life. We do not expect that any order of the Insurance Commissioner of the State of Iowa approving the plan will address the fairness of the plan to purchasers of common stock in the offering.

The Iowa law governing the demutualization provides that an action challenging the plan can be filed, within the limitation period provided under Iowa law, after the Insurance Commissioner of the State of Iowa issues her order approving the plan. The existence of such a challenge could reduce the market price of our common stock. In the event that the plan or the Insurance Commissioner of the State of Iowa's order approving the plan is challenged, a successful challenge could result in monetary damages, a modification of the plan or the Insurance Commissioner of the State of Iowa's approval of the plan being set aside. In addition, a successful challenge would likely result in substantial

uncertainty relating to the terms and effectiveness of the plan, and an extended period of time might be required to reach a final determination. Such an outcome would likely reduce the market price of our common stock.

LITIGATION AND REGULATORY INVESTIGATIONS MAY HARM OUR FINANCIAL STRENGTH AND REDUCE OUR PROFITABILITY.

We are a plaintiff or defendant in actions arising out of our insurance business and investment operations. We are, from time to time, also involved in various governmental and administrative proceedings. Such litigation may harm our financial strength and reduce our profitability.

Life insurance companies have historically been subject to substantial litigation resulting from claims disputes and other matters. Most recently, such companies have faced extensive claims, including class-action lawsuits, alleging improper life insurance sales practices. Negotiated settlements of such class-action lawsuits have had a material adverse effect on the business, financial condition and results of operations of other life insurance companies. Principal Life is currently a defendant in two purported class-action lawsuits alleging improper sales practices. We have reached an agreement in principle to settle both of those lawsuits. The settlement has received court approval. We have established reserves at a level sufficient to cover the cost of the settlement.

SALES OF SHARES DISTRIBUTED IN THE DEMUTUALIZATION MAY REDUCE THE MARKET PRICE OF OUR COMMON STOCK.

Substantially all of our shares of common stock distributed in the demutualization and this offering will be freely tradable. Sales of substantial amounts of common stock, or the perception that such sales could occur, could reduce the prevailing market price for our common stock. We believe the following factors may increase selling pressure on our common stock:

- Some policyholders, in particular owners of larger policies, who elect to receive cash instead of common stock as compensation in the demutualization may nevertheless receive common stock compensation if there is insufficient cash available for cash payment to policyholders. Those policyholders who elected to receive cash instead of common stock may be especially likely to sell the shares of common stock they received in the demutualization to realize cash proceeds.

- Some policyholders may be fiduciaries of pension plans that are subject to the Employee Retirement Income Security Act of 1974, or ERISA, trusts that own individual life insurance policies or welfare benefit plans. Those policyholders, particularly if they did not elect to receive common stock as compensation in the demutualization, may determine that the exercise of their fiduciary duties requires them to promptly sell the shares of common stock they received in the demutualization.

- We must establish a commission-free sales program in the event there are policyholders who receive in the demutualization in exchange for their membership interests 99 or fewer shares of our common stock. Under this program, these policyholders would have the opportunity to sell their shares at prevailing market prices without paying brokerage commission, mailing charges, registration fees, or other administrative or similar expenses. This program would begin no sooner than six months after the date of the closing of this offering, and no later than 12 months after the date of the closing of this offering, and would continue for at least 3 months. Policyholders who received in the demutualization 100 or more shares of common stock would not be eligible for the commission-free sales program.

APPLICABLE LAWS AND OUR STOCKHOLDER RIGHTS PLAN, CERTIFICATE OF INCORPORATION AND BY-LAWS MAY DISCOURAGE TAKEOVERS AND BUSINESS COMBINATIONS THAT OUR STOCKHOLDERS MIGHT CONSIDER IN THEIR BEST INTERESTS.

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

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

Under the Iowa insurance laws, for a period of five years following the effective date of the demutualization, no person may acquire beneficial ownership of more than 5% of the outstanding shares of our common stock without the prior approval of the Insurance Commissioner of the State of Iowa and our board of directors. The Insurance Commissioner of the State of Iowa and our board of directors may consider the following factors:

- the effects of the action on our stockholders;

- the effects of the action on our employees, suppliers, creditors and customers;

- the effects of the action on the communities in which we operate;

- our long-term as well as short-term interests; and

- the long-term as well as short-term interests of our stockholders.

This restriction does not apply to acquisitions made by us or made through an employee benefit plan or employee benefit trust sponsored by us.

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

- permit our board of directors to issue one or more series of preferred stock;

- divide our board of directors into three classes;

- limit the ability of stockholders to remove directors;

- prohibit stockholders from filling vacancies on our board of directors;

- prohibit stockholders from calling special meetings of stockholders;

- impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings; and

- require the approval by the holders of at least 75% of our outstanding common stock for the amendment of our by-laws and provisions of our certificate of incorporation governing:

  - the classified board,

  - the director's discretion in determining what he or she reasonably believes to be in the best interests of Principal Financial Group, Inc.,

  - the liability of directors, and

  - the elimination of stockholder actions by written consent.

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

Our stockholder rights plan may have anti-takeover effects. The stockholder rights plan is designed to protect our stockholders in the event of unsolicited offers to acquire us and other coercive takeover tactics which, in the opinion of our board of directors, could impair the board's ability to represent stockholder interests. Our stockholder rights plan might render an unsolicited takeover more difficult or less likely to occur, even though such a takeover might offer our stockholders the opportunity to sell their stock at a price above the prevailing market price and may be favored by our stockholders.

See "Description of Capital Stock and Change of Control Related Provisions" for additional information on the anti-takeover measures applicable to us.

STATISTICAL INFORMATION SOURCES

This prospectus includes statistical data regarding the asset management and accumulation, life and health insurance and mortgage banking industries.

- Statistical data regarding industry growth projections of, as well as our market share within, the pension industry are based on information included in publications of Spectrem Group, a pension consulting organization, and data from the 2000 Marketplace Update prepared by RG Wuelfing & Associates, Inc. for members of Society of Professional Administrators and Recordkeepers. Spectrem Group data regarding our market share within the pension industry exclude all employers with fewer than 5 employees.

- Statistical data regarding our market share within the 401(k) plan market are derived from information collected through surveys conducted by CFO Magazine, a monthly magazine offering coverage of business issues from the perspective of the senior financial officer.

- Statistical data regarding our use of information technology are provided by InformationWeek Magazine, a weekly publication reporting on the use of technology in business.

- Statistical data regarding the group insurance, annuity, guaranteed investment contract and funding agreement industries are based on information reported to LIMRA International, Inc., a financial services industry marketing research organization. LIMRA International, Inc. rankings are based on data provided by U.S. companies in connection with LIMRA International, Inc. conducted surveys.

- Statistical data comparing the investment performance of some of our mutual funds and separate accounts to our competitors are provided by Morningstar, an independent provider of financial information concerning mutual fund performance and the Investment Company Institute, the national association of the American investment company industry.

- Statistical data regarding the Australian asset management and accumulation industries are based on information reported to ASSIRT, an Australian investment research firm.

- Statistical data regarding the growth of Australian superannuation assets are provided by Cerulli Associates, Inc., a Boston- and London-based research and consulting firm that specializes in financial institutions.

- Statistical data regarding the performance of our margin lending business in Australia are provided by Cannex, an Australian margin lending rating agency.

- Statistical data regarding the group life and health insurance industry are based on information provided by the 1999 Life and Health Statistical report of National Underwriter, a weekly publication servicing the insurance and financial services industries.

- Statistical data regarding the mortgage banking industry are based on information provided by Inside Mortgage Finance, a weekly newsletter reporting on the residential mortgage industry, and by the 1999 Cost of Servicing Survey conducted by the Mortgage Bankers Association of America, an association representing the interests of members of the real estate finance industry.

- Statistical data regarding the performance of our commercial mortgages and information regarding our equity real estate portfolio are provided by the American Council of Life Insurers, an organization representing the interests of members of the life insurance industry.

- Statistical data regarding the mutual fund industry are based on information provided by the 2001 Mutual Fund Fact Book of the Investment Company Institute, an investment company industry organization.

The organizations gathering such data use methodology and conventions that they deem appropriate to measure the companies within the relevant industry segment. These organizations generally indicate that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe this information to be reliable, we have not independently verified such data.

THE DEMUTUALIZATION

In the following section, we provide a summary of the demutualization and of the plan of conversion. The following is just a summary, and is qualified by reference to the actual terms of the plan of conversion. A copy of the plan of conversion has been filed as an exhibit to the registration statement of which this prospectus forms a part.

THE PLAN OF CONVERSION

ADOPTION AND APPROVAL OF THE PLAN OF CONVERSION

The board of directors of Principal Mutual Holding Company unanimously adopted the plan of conversion on March 31, 2001. The principal feature of the plan of conversion is the conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company, a form of conversion known as "demutualization".

Because Principal Mutual Holding Company is a mutual insurance holding company organized under the laws of the State of Iowa, the demutualization is governed by Iowa law. Iowa law requires that the plan of conversion be approved by the policyholders entitled to vote on the plan of conversion by two-thirds of the votes cast, and also by the Insurance Commissioner of the State of Iowa.

The plan of conversion will not become effective unless, after conducting a public hearing on the plan of conversion, the Insurance Commissioner of the State of Iowa approves it based on a finding, among other things, that the plan of conversion is fair and equitable to Principal Mutual Holding Company and the policyholders of Principal Life. See "Risk Factors -- A challenge to the Insurance Commissioner of the State of Iowa's approval of the plan of conversion could put the terms of our demutualization in question and reduce the market price of our common stock." In addition, the effectiveness of the demutualization and the closing of this offering are conditioned on their simultaneous occurrence.

STEPS TO DEMUTUALIZATION

We are currently a wholly-owned subsidiary of Principal Mutual Holding Company. The demutualization of Principal Mutual Holding Company includes the following steps, all of which will occur on the date of the closing of this offering:

- Principal Mutual Holding Company will convert from a mutual insurance holding company into a stock company;
- all membership interests of Principal Life's policyholders in Principal Mutual Holding Company will be extinguished;
- the converted Principal Mutual Holding Company will merge with and into Principal Iowa Newco, Inc.;
- Principal Financial Group, Inc., an Iowa business corporation and subsidiary of Principal Mutual Holding Company, will merge with and into Principal Iowa Newco, Inc.;
- Principal Financial Services, Inc., an Iowa business corporation, will merge with and into Principal Iowa Newco, Inc., and Principal Iowa Newco, Inc. will change its name to "Principal Financial Services, Inc.";
- we will sell shares of our common stock to the public in this offering;
- policyholders entitled to receive compensation in the demutualization will receive shares of our common stock, cash or policy credits as compensation for the extinguishment of their membership interests in Principal Mutual Holding Company no later than 75 days after the closing of this offering, unless the Insurance Commissioner of the State of Iowa approves a later date; and
- we will contribute to Principal Financial Services, Inc., and Principal Financial Services, Inc. will contribute to Principal Life, all or a portion of the net proceeds from this offering, as described in "Use of Proceeds".

In addition to this offering, we may also conduct a private placement of our common stock, a private placement or public offering of convertible preferred stock, a private placement or public offering of debt or seek other sources of capital. The primary purpose of any of these capital raising transactions would be to fund cash and policy credit elections.

When the demutualization and this offering are complete, we will be a Delaware public company. We will own 100% of the stock of Principal Financial Services, Inc., and Principal Financial Services, Inc. will own 100% of the stock of Principal Life and other operating subsidiaries of the Principal Financial Group.

The following chart illustrates our corporate structure prior to and following the demutualization:

[STRUCTURE BEFORE & AFTER DEMUTUALIZATION GRAPHS]

EFFECTIVE DATE

The demutualization will become effective on the date of the closing of this offering. The plan of conversion provides that the effective date will occur after the approval by the policyholders entitled to vote on the plan of conversion and the Insurance Commissioner of the State of Iowa, but on or before 12 months after the date on which the Insurance Commissioner of the State of Iowa approves the plan of conversion. With the approval of the Insurance Commissioner of the State of Iowa, the effective date deadline may be extended.

ADDITIONAL REVIEW AND APPROVAL

Our plan of conversion is also subject to review by the New York Superintendent of Insurance, who may raise objections if he determines that its provisions are unfair or inequitable to New York policyholders. We have also applied to the Department of Labor for prohibited transaction exemptions under ERISA. A more complete description of these exemptions is provided under the heading "-- ERISA Considerations".

PAYMENT OF CONSIDERATION TO ELIGIBLE POLICYHOLDERS

AMOUNT AND FORM OF CONSIDERATION

Until the effective date of the demutualization, Principal Mutual Holding Company is a mutual insurance holding company governed by its members, who are policyholders of Principal Life. In connection with the demutualization, the membership interests of Principal Life policyholders in Principal Mutual Holding Company will be extinguished, and policyholders entitled to receive compensation in the demutualization will receive compensation in exchange for the extinguishment of their membership interests.

Policyholders entitled to receive compensation in the demutualization are those persons who:

- owned on March 31, 2000 a Principal Life policy or contract and who had a continuous membership interest in Principal Mutual Holding Company through ownership of a Principal Life policy or contract from March 31, 2000 until the date of the closing of this offering; or

- were issued a Principal Life policy or contract on or before April 8, 1980 and transferred ownership rights of that policy or contract on or before April 8, 1980, so long as such policy or contract remained in force until the date of the closing of this offering.

Whether or not a policy or contract is in force is determined based upon our records. In general, a policy or contract is in force on a given day if it has been issued and is in effect, has not matured by death or otherwise or been surrendered or otherwise terminated, and verbal or written notice of the insured's death has not been received by Principal Life. A policy is generally not in force until it is issued and is in effect. However, a policy is considered to be in force if we have received at our administrative office an application complete on its face or payment of the full initial premium, or such lesser amount required by our normal administrative procedures, together with sufficient information to effect a contract of insurance according to our normal administrative procedures for coverage to be effective, provided that such policy is later issued in accordance with the terms of its application.

We currently estimate that compensation will consist of a fixed component equal to 100 shares of common stock for each policyholder entitled to receive compensation in the demutualization, and a variable component of additional shares allocated, based on actuarial formulas described in our plan of conversion and the actuarial contribution memorandum. The actuarial formulas take into account a policy's past and estimated future contributions to the surplus and asset valuation reserve of Principal Life.

The compensation will be in the form of either policy credits, cash or shares of our common stock. In the case of the MANDATORY POLICY CREDITS, policy credits are either an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the policy. In the case of group policies, policy credits are either SEPARATE ACCOUNT POLICY CREDITS or Account Value Policy Credits. The form of compensation will be determined as follows:

POLICY CREDITS. The following types of policies will be required to receive or be eligible for policy credits:

- If the policy is required to receive Mandatory Policy Credits, the policy credits may take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the policy. The following types of policies are required to receive Mandatory Policy Credits:

  - Individual retirement annuity contracts under Section 408(b) or Section 408A of the Internal Revenue Code.

  - Tax sheltered annuity contracts under Section 403(b) of the Internal Revenue Code.

  - Individual annuity contracts issued directly to a plan participant under a plan qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code.

  - Individual life insurance policies issued directly to a plan participant under a plan qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code.

- If the policy is owned by a QUALIFIED PLAN CUSTOMER, the policy credit may take the form of Separate Account Policy Credits, which may be allocated to participants under the policy. A Qualified Plan Customer may elect common stock or, subject to the limits described in the plan of conversion, Account Value Policy Credits or cash as consideration rather than Separate Account Policy Credits. If no election is made, such Qualified Plan

Customer will receive Separate Account Policy Credits. However, Qualified Plan Customers whose group annuity contracts were issued in California will not be eligible for Separate Account Policy Credits. Instead, they are eligible to receive common stock or, subject to the limits described in the plan of conversion, Account Value Policy Credits or cash. If no election is made, Qualified Plan Customers whose group annuity contracts were issued in California will receive common stock.

- If the policy is owned by a NON-RULE 180 QUALIFIED PLAN CUSTOMER, the policy credit may take the form of an Account Value Policy Credit, which may be allocated to participants under the policy. A Non-Rule 180 Qualified Plan Customer may elect to receive common stock or, subject to the limits described in the plan of conversion, cash as consideration rather than Account Value Policy Credits. If no election is made, such Non-Rule 180 Qualified Plan Customer will receive Account Value Policy Credits.

CASH. The following types of policies will be eligible solely for cash:

- Policies for which the mailing address of the policyholder on Principal Life's or Principal Mutual Holding Company's records is one at which mail is undeliverable.

- Policies for which the mailing address of the policyholder on Principal Life's or Principal Mutual Holding Company's records is located outside the United States.

- Policies for which it is not reasonably feasible or appropriate to provide consideration in the form that policyholders would otherwise receive.

All policyholders who are entitled to receive shares of our common stock will be permitted, prior to the vote of the policyholders entitled to vote on the plan of conversion, to express a preference to receive cash, rather than common stock, as consideration for the extinguishment of their membership interests. Cash will be distributed to such policyholders to the extent available. Eligible policyholders that elect cash and are allocated 100 shares or fewer will receive cash. See "-- Limits on Amount Available for Cash, Account Value Policy Credits and Separate Account Policy Credits Compensation".

COMMON STOCK. Except for policies which are eligible solely for Mandatory Policy Credits or cash, all eligible policies will be eligible for shares of our common stock.

CALCULATION OF COMPENSATION

COMMON STOCK. Policyholders receiving common stock as compensation will receive the number of shares of common stock ultimately allocated to them. The value of each share of common stock will be equal to its public trading price on any particular day.

CASH AND POLICY CREDITS (OTHER THAN SEPARATE ACCOUNT POLICY CREDITS). Policyholders receiving cash or policy credits (other than Separate Account Policy Credits) will receive an amount equal to the number of shares of common stock that are allocated to them multiplied by the price per share at which the common stock is sold in this offering.

SEPARATE ACCOUNT POLICY CREDITS. Policyholders receiving Separate Account Policy Credits will receive an amount equal to their respective share of the assets in the separate account holding shares of our common stock and maintained by Principal Life. Because our common stock will initially be the only asset in this separate account, any policyholder's share of the assets when the separate account is initiated will be equal to the number of shares of our common stock allocated to that policyholder multiplied by the public trading price of our common stock at that time. See "-- Operation of the Separate Account Holding Shares of our Common Stock".

LIMITS ON AMOUNT AVAILABLE FOR CASH, ACCOUNT VALUE POLICY CREDITS AND SEPARATE ACCOUNT POLICY CREDITS COMPENSATION

Each policyholder who is eligible to receive common stock will have an opportunity to elect cash. If cash is not elected by such policyholder, a preference for common stock will be assumed, unless such policyholder is a Qualified Plan Customer or a Non-Rule 180 Qualified Plan Customer.

There may be a limit to the amount of funds available to pay cash and provide Account Value Policy Credits to eligible policyholders allocated more than 100 shares of common stock under our plan of conversion. It is possible that the total funds raised in this offering and the other capital raising transactions, if applicable, will not be sufficient to fund cash distributions or Account Value Policy Credits for all of the eligible policyholders who have been allocated more than 100 shares of common stock and who have elected cash, or elected or are deemed to have elected Account Value Policy Credits. However, eligible policyholders who are allocated 100 or fewer shares of common stock will receive cash or Account Value Policy Credits, if they so elect.

In the event that the total available funds are not sufficient, the available funds will be distributed to those expressing a preference for cash or Account Value Policy Credits based on the number of shares of common stock

that would be distributed to each electing policyholder, progressing from the smallest number of shares to the largest number at which all policyholders electing cash or Account Value Policy Credits can be accommodated.

Qualified Plan Customers whose cash or Account Value Policy Credit preferences cannot be satisfied will instead receive Separate Account Policy Credits. Non-Rule 180 Qualified Plan Customers and Qualified Plan Customers whose group annuity contracts were issued in California whose cash or Account Value Policy Credit preferences cannot be satisfied will instead receive shares of our common stock.

The maximum number of allocated shares for which cash or Account Value Policy Credits will be available will depend on a number of factors. These factors include the number of policyholders eligible for common stock, Mandatory Policy Credits or cash, the size of the initial public offering, the initial public offering stock price, the size of any other capital raising transaction, if applicable, and the percentage of policyholders who elect to receive cash or Account Value Policy Credits.

In addition, the amount of Separate Account Policy Credits will be limited so that no less than 50% of the total consideration distributed to policyholders entitled to receive compensation in the demutualization will be in the form of common stock.

ACTUARIAL OPINION

Principal Mutual Holding Company retained Milliman & Robertson, Inc., an independent actuarial consulting firm, to advise it in connection with actuarial matters involved in the development of the plan of conversion and the payment of consideration to policyholders entitled to receive compensation in the demutualization. The opinion of Daniel J. McCarthy, F.S.A., an independent consulting actuary associated with Milliman & Robertson, Inc., dated March 31, 2001, states, in reliance upon the matters described in such opinion, that the principles, assumptions and methodologies used to allocate the consideration among policyholders entitled to receive compensation in the demutualization are reasonable and appropriate and result in an allocation of consideration that is fair and equitable to these policyholders. A copy of the opinion is attached as Annex A to this prospectus.

OPERATION OF THE SEPARATE ACCOUNT HOLDING SHARES OF OUR COMMON STOCK

We estimate that approximately 50 million shares of our common stock may be issued to a new separate account of Principal Life in connection with funding the Separate Account Policy Credits. As described above, these shares will be held in the separate account for the benefit of Qualified Plan Customers and may be sold in the market from time to time as a result of instructions from the Qualified Plan Customers holding interests in this separate account. If not directed otherwise by the Qualified Plan Customer, the separate account interests owned by that Qualified Plan Customer may also be allocated to participants' benefit plan accounts under the applicable policy. Dividends with respect to these shares will be paid to Principal Life and allocated to the separate account. The Qualified Plan Customer may request Principal Life to transfer the value of its interest in the separate account to Principal Life's general account or to another account for investment purposes. Principal Life will have no right to use the assets of the separate account for any obligation or purpose other than those relating to the group annuity contract under which the assets in the separate account will be held.

Principal Life will hold legal title to these shares in a fiduciary capacity. The Qualified Plan Customers will remain the beneficial owners of these shares and be able to exercise voting rights. The plan of conversion provides that Principal Life, as record holder of the shares held in the separate account, will solicit voting instructions from the Qualified Plan Customers holding interests in the separate account and will vote the shares as instructed.

If the Qualified Plan Customer fails to provide instructions to Principal Life, the non-directed shares (the shares as to which Principal Life has received no instruction) will be voted as follows:

- if the matter involved is routine, Principal Life will vote the non-directed shares under a "mirror voting" provision, in other words the non-directed shares will be voted in the same proportion, either for, against or abstain, as the shares in the separate account for which Principal Life has received instructions; or

- if the matter involved is not routine, an independent fiduciary appointed by Principal Life will instruct Principal Life to vote the non-directed shares in a way that, in the independent fiduciary's judgment, would be in the best interest of the participants and beneficiaries of the benefits plans of Qualified Plan Customers in whose interest such shares are held; Principal Life will retain fiduciary responsibility as to these matters, and the independent fiduciary will in effect act as Principal Life's agent.

Routine matters refer to matters within the ordinary course of the business of the corporation and its stockholders, such as the election of directors at an annual meeting. Non-routine matters refer to fundamental corporate decisions outside the ordinary course of the business of the corporation and its stockholders, such as a potential change of control.

Principal Life expects to appoint as independent fiduciary a major financial institution with investment management expertise. These voting procedures will be set forth in an agreement between Principal Life and the independent fiduciary as well as in the plan of operation for the separate account.

In our future consolidated financial statements, we will report the shares of our common stock held by the new separate account of Principal Life as an investment of the separate account, and will establish a corresponding separate account liability, based on the fair value of those shares, for the amounts owed to the Qualified Plan Customers under the related group variable annuity contracts. This is consistent with the accounting under generally accepted accounting principles for other separate accounts where all investment risks and rewards are borne by the contractholders. Generally accepted accounting principles accord special accounting treatment to group variable annuity contracts issued by separate accounts, recognizing that such contracts provide contractholders with virtually all the rights of ownership except legal title to the shares held in the separate account and therefore company shares held in a subsidiary's separate account need not be accounted for as treasury stock.

THE CLOSED BLOCK

At the time our existing pre-demutualization mutual insurance holding company structure was created in 1998, for policy dividend purposes only, Principal Life formed and began operating a Closed Block for the benefit of individual policies paying experience-based policy dividends. For accounting purposes only, assets of Principal Life were allocated to the Closed Block in an amount that produces cash flows which, together with anticipated revenue from the Closed Block policies and contracts, were expected to be sufficient to support the Closed Block policies including, but not limited to, provisions for payment of claims, expenses, charges and taxes, and to provide for continuation of policy and contract dividends in aggregate in accordance with the 1997 dividend scales, if the experience underlying such scales continues, and to allow for appropriate adjustments in such scales, if such experience changes. Assets in the Closed Block remain as general account assets of Principal Life and are fully subject to the claims of creditors of Principal Life, like any general account assets. The Closed Block continues in existence as established and will not be affected by the demutualization. No additional policies will be added to the Closed Block as a result of the demutualization.

COMMISSION-FREE SALES PROGRAM

In accordance with the plan of conversion, subject to any applicable requirements of federal or state securities laws, we must establish a commission-free sales program in the event there are policyholders entitled to receive compensation in the demutualization who receive 99 or fewer shares of our common stock. This circumstance would only occur if we adjust the total number of shares allocated to policyholders entitled to receive compensation in the demutualization so that the fixed component would consist of fewer than 100 shares of our common stock. This adjustment would only take place with the prior approval of the Insurance Commissioner of the State of Iowa, and would most likely occur in order to ensure that the filing range for the price of a share of our common stock is a range that we and the managing underwriters of this offering deem appropriate.

If we have to establish this program, the plan of conversion requires that we begin the program no sooner than the first business day after the six-month anniversary, and no later than the first business day after the twelve-month anniversary, of the date of the closing of this offering, and continue the program for at least three months. We may extend the three-month period if we determine the extension to be appropriate and in the best interest of the policyholders entitled to receive compensation in the demutualization. Under this program, each policyholder entitled to receive compensation in the demutualization who receives 99 or fewer shares of our common stock would have the opportunity at any time during the three-month period to sell all, but not less than all, of those shares in one transaction at prevailing market prices without paying brokerage commissions or other similar expenses. We would also offer each stockholder entitled to participate in the commission-free sales program the opportunity to purchase shares of our common stock as necessary to increase its holdings to a 100 share round lot without paying brokerage commissions or other similar expenses. This stock purchase program would occur simultaneously and in conjunction with the commission-free sales program.

LIMITATIONS ON ACQUISITION AND DISPOSITION OF SECURITIES BY OFFICERS AND DIRECTORS

No officer, director or employee will receive stock or cash compensation at the time of the demutualization other than what he or she may receive as a policyholder entitled to receive compensation in the demutualization or as a plan participant of a policyholder entitled to receive compensation in the demutualization.

Until six months after the completion of the demutualization, we may not award any stock options, stock grants or other stock-based grants to any of our executive officers or directors, our executive officers and directors and their families may not purchase shares of our common stock, and our executive officers and directors may not receive distributions of stock under our long-term performance plan. Until eighteen months after the completion of the demutualization, we may not issue any shares of our common stock to a participant under our excess plan (our non qualified retirement savings plan). No stock incentive awards to our executive officers and no awards to our directors

may become exercisable or distributable earlier than eighteen months after the completion of the demutualization, except in cases of death or disability or, in limited circumstances, with the approval of the Insurance Commissioner of the State of Iowa. These restrictions apply not only to those who are "executive officers" within the meaning given that term in the Securities Exchange Act of 1934, but also to the officers of any of our affiliated companies or subsidiaries with a title of Second Vice President or a more senior title, whom we refer to in the plan of conversion as our "executive officers."

These limitations do not prevent us from issuing common stock:

- in connection with our employees savings plan, our agents savings plan, any employee stock ownership plan or other employee benefit plan established for the benefit of our employees and qualified under the Internal Revenue Code; or

- to match contributions by employees to any such plan.

Further, our stock incentive plan allows us to issue shares of common stock to our employees other than our executive officers and directors, as well as to our agents, but not before 30 days after the completion of the demutualization.

We may issue shares of common stock, options or other stock-based incentives pursuant to our stock incentive plan, the long-term performance plan, the directors stock plan and the excess plan, although the maximum number of shares of common stock that may be issuable under all such plans, and any new plan awarding our common stock, during the five year period after the completion of the demutualization, is 6% of the number of shares outstanding immediately following the completion of the demutualization, unless the shareholders vote to increase such maximum number. The number of shares that may be awarded in the eighteen months following the completion of the demutualization is limited to 40% of such maximum. These limitations are not applicable to three plans: our employee stock purchase plan, pursuant to which we may issue up to 2% of the total number of shares outstanding immediately following the completion of the demutualization, our employees savings plan and our agents savings plan.

LIMITATIONS ON ACQUISITIONS OF OUR COMMON STOCK

Iowa law prohibits for a period of 5 years following the date of distribution of consideration to the policyholders in exchange for their membership interests:

- any person, other than the reorganized company, or other than an employee benefit plan or employee benefit trust sponsored by the reorganized company, from directly or indirectly acquiring or offering to acquire the beneficial ownership of more than 5% of any class of voting security of the reorganized company, and

- any person, other than the reorganized company, or other than an employee benefit plan or employee benefit trust sponsored by the reorganized company, who acquires 5% or more of any class of voting security of the reorganized company prior to the conversion, from directly or indirectly acquiring or offering to acquire the beneficial ownership of additional voting securities of the reorganized company,

unless the acquisition is approved by the Insurance Commissioner of the State of Iowa and by the board of directors of the reorganized company.

By virtue of these provisions, we may not be subject to an acquisition by another company during the 5 years following the distribution of consideration to policyholders entitled to receive compensation in the demutualization.

AMENDMENTS TO THE PLAN

The board of directors of Principal Mutual Holding Company may amend the plan of conversion at any time before the date of the closing of this offering with the approval of the Insurance Commissioner of the State of Iowa. The board of directors of Principal Financial Group, Inc. may amend the plan of conversion after the date of the closing of this offering with the approval of the Insurance Commissioner of the State of Iowa.

POSSIBILITY OF APPEAL

Under Iowa law, judicial review of a decision of the Insurance Commissioner of the State of Iowa may be sought by initiation of an action, within the limitation period provided under Iowa law, after the Insurance Commissioner of the State of Iowa issues her order approving the plan of conversion.

ERISA CONSIDERATIONS

We and our subsidiaries provide a variety of fiduciary and other services to employee benefit plans that are also policyholders. The provision of such services may cause us to be a "party in interest" or "disqualified person," as such terms are defined in ERISA and the Internal Revenue Code, with respect to such plans. Unless an exemption is

obtained from the Department of Labor, some transactions between parties in interest or disqualified persons and those plans are prohibited by ERISA and the Internal Revenue Code. We have applied to the Department of Labor for prohibited transaction exemptions under ERISA, which would, if granted, provide relief from the restrictions of ERISA and the Internal Revenue Code to permit policyholders entitled to receive compensation in the demutualization to receive common stock, cash or policy credits in accordance with the plan of conversion.

We have requested that the Department of Labor grant a prohibited transaction exemption with respect to compensation under the plan of conversion to policyholders entitled to receive compensation in the demutualization as to which we are a "party in interest" or "disqualified person." Such exemption would be subject to various conditions, including the implementation of the plan of conversion in accordance with procedural and substantive safeguards that are imposed under the Iowa demutualization law and supervised by the Insurance Commissioner of the State of Iowa. Based upon discussions with the Department of Labor, we believe that the Department of Labor will issue an exemption prior to the date of the closing of this offering. However, we cannot guarantee that the Department of Labor will take such action. If the Department of Labor does not issue the requested exemption prior to the date of the closing of this offering, we may, with the approval of the Insurance Commissioner of the State of Iowa, either pay such consideration to policyholders entitled to receive compensation in the demutualization or delay such payment and place such consideration in an escrow or similar arrangement until such time as the Department of Labor issues the exemption. The escrow or arrangement will provide for payment of such consideration plus interest earned on such consideration not later than the third anniversary of the date of the closing of this offering.

U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DEMUTUALIZATION TO US

We have received a private letter ruling from the Internal Revenue Service to the effect that, among other matters:

- The conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company will be treated as a "recapitalization" within the meaning of section 368(a)(1)(E) of the Internal Revenue Code;

- The merger of Principal Mutual Holding Company into Principal Iowa Newco, Inc. will not be prevented from qualifying as a "reorganization" within the meaning of section 368(a)(1)(A) or section 368(a)(2)(D) of the Internal Revenue Code by reason of Principal Mutual Holding Company's status as a "mutual insurance holding company" until immediately prior to such merger; and

- The affiliated federal income tax group of which Principal Mutual Holding Company is the common parent immediately before the consummation of the proposed transaction will remain in existence, with Principal Financial Group, Inc., a Delaware corporation and the issuer of our common stock, as the common parent.

We have received opinions of our special tax counsel, Debevoise & Plimpton, dated May 24, 2001, substantially to the effect that, under the federal income tax law and facts as they existed on the date of the opinion:

- Policies issued by Principal Life prior to the completion of the demutualization will not be deemed newly-issued policies for any material federal income tax purpose as a result of Principal Mutual Holding Company's conversion from a mutual insurance holding company into a stock company;

- Policyholders receiving solely shares of our common stock and Qualified Plan Customers whose policies are credited with Separate Account Policy Credits should not recognize income, gain or loss for federal income tax purposes as a result of the consummation of our demutualization;

- For policies that are tax sheltered annuities, individual retirement annuities, Roth IRAs or individual life insurance policies or annuity contracts issued to participants in qualified retirement plans, the completion of our demutualization, including the crediting of compensation in the form of policy credits, will not result in any transaction that will (1) be treated as a contribution or distribution that will result in penalties to the holder or that will be subject to withholding, (2) disqualify an individual retirement annuity policy or give rise to a prohibited transaction between the individual retirement annuity and the individual for whose benefit it is established, or his or her beneficiary, or (3) adversely affect the tax-favored status of these policies under the Internal Revenue Code or result in penalties or any other material adverse federal income tax consequences to the holders of these policies under the Internal Revenue Code;

- For policies that are part of a tax-qualified pension or profit-sharing plan described in section 401(a) or section 403(a) of the Internal Revenue Code and that will be credited with compensation in the form of policy credits, the completion of our demutualization, including the crediting of compensation in the form of policy credits, will not result in any transaction that will disqualify the plan, give rise to a prohibited transaction between the plan and the individual for whose benefit it is established, or his or her beneficiary, or otherwise adversely affect the tax-favored status of the policies under the Internal Revenue Code or result in penalties or any other material adverse federal income tax consequences to the holders of these policies under the Internal Revenue Code; and

- The summary of the principal federal income tax consequences to policyholders of their receipt of compensation under our plan of conversion, that is contained under the heading "U.S. Federal Income Tax Considerations" in the information booklet provided to policyholders, is, to the extent it describes matters of law or legal conclusions and subject to the limitations and assumptions described in it, an accurate summary of the material federal income tax consequences to policyholders of the consummation of our plan of conversion under the federal income tax law.

In order for us to complete our demutualization, our special tax counsel must confirm that each of these opinions continues to be true under the facts and federal income tax law as they exist on the date of the closing of this offering.

Based on the Internal Revenue Service rulings we have received and the opinions of our special tax counsel described above, we believe that the Principal Financial Group will not realize significant income, gain or loss for federal income tax purposes as a result of the consummation of the demutualization under the terms of the plan of conversion.

The private letter rulings we have received from the Internal Revenue Service and the opinions of special tax counsel described above are based on the accuracy of representations and undertakings made by us.

USE OF PROCEEDS

Our net proceeds from the offering will be approximately $1,987.1 million, or $2,286.0 million if the underwriters exercise in full their option to purchase additional shares of common stock in the offering, assuming an initial public offering price of $19.00 per share, and after deducting underwriting discounts and commissions and the estimated expenses of the offering. The following table summarizes the use of these net proceeds, assuming the underwriters do not exercise their option to purchase additional shares of common stock in the offering:

USE OF PROCEEDS:	($ IN MILLIONS)
Cash contributed to Principal Life	$1,737.1
Proceeds retained by Principal Financial Group, Inc.	250.0
Total net proceeds	$1,987.1

The plan of conversion requires us to contribute all or a portion of the net proceeds to Principal Life to fund (1) policy credits and cash payments for policyholders for whom policy credits or cash are the required form of compensation; (2) the elections for cash and the elections or deemed elections for Account Value Policy Credits that are attributable to policyholders entitled to these forms of compensation; and (3) an amount equal to the fees and expenses of the demutualization paid by Principal Life. We may retain up to $250.0 million of any remaining proceeds. We will contribute any remaining proceeds in excess of this $250.0 million limit to Principal Life.

In connection with the demutualization, Principal Life will require funds to satisfy the following needs. As of the date of this prospectus:

- $36.1 million is estimated to be required for the cost of the nonrecurring expenses of Principal Life directly related to the demutualization;

- $1,533.0 million is estimated to be used to make cash payments and fund Account Value Policy Credits to policyholders entitled to receive compensation in the demutualization; and

- $168.0 million is estimated to be necessary to support compensation to policyholders eligible solely for cash or policy credits.

In addition to the shares of our common stock distributed in this offering, for which we will receive cash proceeds, many policyholders entitled to receive compensation in the demutualization will receive shares of our common stock distributed in connection with the demutualization, as well as cash, Account Value Policy Credits or Separate Account Policy Credits, as compensation for extinguishment of their membership interests in Principal Mutual Holding Company. None of Principal Financial Group, Inc., Principal Financial Services, Inc. or Principal Life will receive any proceeds from the issuance of our common stock to policyholders entitled to receive compensation in the demutualization for the extinguishment of their membership interests in Principal Mutual Holding Company or to the separate account to be established for the Separate Account Policy Credits.

STOCKHOLDER DIVIDEND POLICY

We currently intend to pay regular annual cash dividends on our common stock. We currently intend to declare an annual cash dividend of $0.25 per share on our common stock. We expect that our first annual cash dividend will be a proportion of that amount, based on the number of months remaining in the calendar year in which we become public. Although we intend to pay dividends, the declaration and payment of dividends is subject to the discretion of our board of directors. The declaration, payment and amount of dividends will be dependent upon our results of operations, financial condition, cash requirements, future prospects, regulatory and other restrictions on the payment of dividends by our subsidiaries to us and other factors deemed relevant by our board of directors. There can be no assurance that we will declare and pay any dividends.

As a holding company, we will depend principally on dividends from Principal Life to satisfy our financial obligations, pay operating expenses and pay dividends to our stockholders.

If Principal Life is unable to pay stockholder dividends in the future, our ability to pay dividends to our stockholders and meet our cash obligations will be limited. The payment of dividends by Principal Life is subject to the discretion of its board of directors. In addition, the Iowa insurance laws limit how and when Principal Life can pay stockholder dividends. Principal Life will be able to pay approximately $760.9 million in dividends in 2001 based on its 2000 statutory financial results without being subject to the restrictions on payment of extraordinary stockholder dividends, of which as of April 30, 2001, $510.9 million had been paid. See "Risk Factors -- Our ability to pay dividends and meet our obligations may be constrained by the limitation on dividends Iowa insurance laws impose on Principal Life", "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources", and Note 14 to our audited consolidated financial statements.

CAPITALIZATION

The following table provides, as of March 31, 2001, (1) our actual consolidated capitalization and (2) our pro forma capitalization after giving effect to:

- the demutualization and the issuance of 260,473,684 shares of our common stock to policyholders entitled to receive compensation in the demutualization or to the separate account to be established for the Separate Account Policy Credits;

- the sale of 109,526,316 shares of our common stock in this offering at an assumed initial public offering price of $19.00 per share; and

- the application of the net proceeds from this offering as described under "Use of Proceeds," as if the demutualization and this offering had occurred as of March 31, 2001.

We based the pro forma information on the assumptions we have made about the number of shares of common stock and the amount of cash and policy credits that will be distributed to policyholders entitled to receive compensation in the demutualization. We describe these assumptions in "Unaudited Pro Forma Condensed Consolidated Financial Information." You should read this table in conjunction with the Unaudited Pro Forma Condensed Consolidated Financial Information appearing in this prospectus.

The table below assumes that the underwriters' option to purchase additional shares of common stock in the offering is not exercised.

	AS OF MARCH 31, 2001	
	ACTUAL	PRO FORMA
	($ IN MILLIONS)	
Debt:		
Short-term debt	$ 550.1	$ 550.1
Long-term debt	1,294.1	1,294.1
Total debt	1,844.2	1,844.2
Equity:		
Common stock, $0.01 par value; 2.5 billion shares authorized; 370.0 million shares issued and outstanding	--	3.7
Additional paid-in capital	--	6,687.8
Retained earnings	6,417.8	--
Accumulated other comprehensive income (loss)	23.0	23.0
Total equity	6,440.8	6,714.5
Total capitalization	$8,285.0	$8,558.7
Book value per common share		$ 18.15

SELECTED HISTORICAL FINANCIAL INFORMATION

The following table provides summary historical consolidated financial information of Principal Mutual Holding Company, the predecessor to Principal Financial Group, Inc. prior to the demutualization, and will be applicable to Principal Financial Group, Inc. following the demutualization. The consolidated financial information for each of the years ended December 31, 2000, 1999 and 1998 and as of December 31, 2000 and 1999 has been derived from our audited consolidated financial statements and notes to the financial statements included in this prospectus. The consolidated financial information for the years ended December 31, 1997 and 1996 and as of December 31, 1998, 1997 and 1996 has been derived from our audited consolidated financial statements not included in this prospectus. The summary consolidated financial information for the three months ended March 31, 2001 and 2000 and as of March 31, 2001 has been derived from our unaudited interim consolidated financial statements included in this prospectus. The summary consolidated financial information as of March 31, 2000 has been derived from our unaudited interim consolidated financial statements not included in this prospectus. All unaudited interim consolidated financial information presented in the table below reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations for such periods. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year. The following summary consolidated financial information, other than the Principal Life statutory data, has been prepared in accordance with GAAP.

The following is a summary and, in order to fully understand our consolidated financial information, you should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to the financial statements included in this prospectus. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,				
	2001(2)	2000(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
	($ IN MILLIONS)						
INCOME STATEMENT DATA:(1)							
Revenues:							
Premiums and other considerations	$ 1,064.2	$ 1,014.4	$ 3,996.4	$ 3,937.6	$ 3,818.4	$ 4,667.8	$ 5,120.9
Fees and other revenues	413.0	396.4	1,576.3	1,287.3	978.8	881.9	722.4
Net investment income	839.7	789.5	3,172.3	3,072.0	2,933.9	2,936.6	2,894.0
Net realized capital gains (losses)	(80.9)	70.3	139.9	404.5	465.8	175.3	387.8
Total revenues	2,236.0	2,270.6	8,884.9	8,701.4	8,196.9	8,661.6	9,125.1
Expenses:							
Benefits, claims and settlement expenses	1,391.9	1,319.6	5,232.3	5,260.9	5,089.0	5,632.5	6,086.5
Dividends to policyholders	81.0	75.4	312.7	304.6	298.7	299.3	298.5
Operating expenses	622.7	593.2	2,479.4	2,070.3	2,074.0	2,035.5	1,909.8
Total expenses	2,095.6	1,988.2	8,024.4	7,635.8	7,461.7	7,967.3	8,294.8
Income before income taxes and cumulative effect of accounting change	140.4	282.4	860.5	1,065.6	735.2	694.3	830.3
Income taxes	24.4	89.3	240.3	323.5	42.2	240.8	304.3
Income before cumulative effect of accounting change	116.0	193.1	620.2	742.1	693.0	453.5	526.0
Cumulative effect of accounting change, net of related income taxes	(10.7)	--	--	--	--	--	--
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0	$ 453.5	$ 526.0

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,				
	2001(2)	2000(2)	2000(2)	1999(2)	1998(2)	1997(2)	1996(2)
	($ IN MILLIONS)						
BALANCE SHEET DATA:(1)							
Invested assets	$44,002.6	$41,771.1	$42,090.6	$41,343.2	$40,686.7	$39,572.2	$38,658.3
Separate account assets	31,638.8	36,369.6	34,916.2	34,992.3	29,009.3	23,560.1	17,166.3
All other assets	6,771.0	6,662.1	7,250.2	7,496.7	4,247.3	3,921.4	3,317.7
Total assets	$82,412.4	$84,802.8	$84,257.0	$83,832.2	$73,943.3	$67,053.7	$59,142.3
Policyholder liabilities	$38,763.7	$37,652.2	$38,095.7	$37,687.9	$35,781.7	$35,224.6	$34,725.3
Separate account liabilities	31,638.8	36,369.6	34,916.2	34,992.3	29,009.3	23,560.1	17,166.3
Short-term debt	550.1	766.2	459.5	547.3	290.9	313.7	198.5
Long-term debt	1,294.1	1,519.6	1,336.5	1,492.9	670.9	458.9	399.1
All other liabilities	3,724.9	2,795.0	3,196.6	3,558.9	2,523.3	2,212.2	1,998.6
Total liabilities	$75,971.6	$79,102.6	$78,004.5	$78,279.3	$68,276.1	$61,769.5	$54,487.8
Retained earnings	$ 6,417.8	$ 5,885.4	$ 6,312.5	$ 5,692.3	$ 4,950.2	$ 4,257.2	$ 3,803.7
Net unrealized gains (losses) on available-for-sale securities	319.9	(87.0)	129.9	(79.1)	745.9	1,037.5	859.7
Net foreign currency translation adjustment	(296.9)	(98.2)	(189.9)	(60.3)	(28.9)	(10.5)	(8.9)
Total equity	$ 6,440.8	$ 5,700.2	$ 6,252.5	$ 5,552.9	$ 5,667.2	$ 5,284.2	$ 4,654.5
PRINCIPAL LIFE STATUTORY DATA:(3)							
Premiums and deposits(4)	$ 1,264.7	$ 4,349.2	$15,653.3	$15,709.8	$14,120.3	$12,710.9	$12,156.2
Net income	131.7	222.4	912.6	713.7	511.4	432.2	415.0
Statutory capital and surplus	$ 3,058.9	$ 3,266.5	$ 3,356.4	$ 3,151.9	$ 3,031.5	$ 2,811.1	$ 2,503.5
Asset valuation reserve	887.6	968.4	919.8	953.8	966.9	1,087.9	1,005.0
Statutory capital and surplus and asset valuation reserve	$ 3,946.5	$ 4,234.9	$ 4,276.2	$ 4,105.7	$ 3,998.4	$ 3,899.0	$ 3,508.5
OTHER SUPPLEMENTAL DATA:							
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0	$ 453.5	$ 526.0
Less:							
Net realized capital gains (losses), as adjusted(5)	(47.9)	49.8	93.1	266.9	320.7	111.4	261.0
Non-recurring items(6)	(20.5)	--	(101.0)	--	104.8	--	--
Operating earnings	$ 173.7	$ 143.3	$ 628.1	$ 475.2	$ 267.5	$ 342.1	$ 265.0
Operating return on average equity (7)	10.7%	8.8%	10.5%	8.9%	5.8%	8.5%	7.5%
Total return on average equity(8)	8.7%	11.7%	10.3%	13.9%	15.1%	11.3%	14.9%
Operating earnings before amortization of goodwill and other intangibles	$ 186.6	$ 153.1	$ 670.8	$ 492.0	$ 304.0	$ 352.0	$ 273.7
Assets under management (in billions)	$ 113.0	$ 117.7	$ 117.5	$ 116.6	$ 80.4	$ 72.1	$ 63.0
Number of employees (actual)	17,363	16,668	17,473	17,129	15,970	17,637	17,010

We evaluate segment performance by segment operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and non-recurring events and transactions. Segment operating earnings is determined by adjusting GAAP net income for net realized capital gains and losses, as adjusted, and non-recurring items that we believe are not indicative of overall operating trends. While these items may be significant components in understanding and assessing our consolidated financial performance, we believe the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, recurring operations of our businesses. However, segment operating earnings are not a substitute for net income determined in accordance with GAAP.

The following table provides selected segment information as of or for the three months ended March 31, 2001 and 2000 and as of or for each of the years ended December 31, 2000, 1999 and 1998. The segment information is reported on a consolidated basis.

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,				AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001(2)		2000(2)		2000(2)		1999(2)
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT
	($ IN MILLIONS)						
OPERATING EARNINGS DATA:							
Operating revenues:							
U.S. Asset Management and Accumulation(9)	$ 1,015.7	46%	$ 868.3	38%	$ 3,533.9	40%	$ 3,472.6
International Asset Management and Accumulation	144.4	6	157.4	7	630.7	7	379.6
Life and Health Insurance	1,002.4	45	1,047.4	46	4,122.6	46	3,985.5
Mortgage Banking	119.6	5	97.7	5	359.8	4	398.3
Corporate and Other(9)(10)	35.0	2	29.0	1	97.1	1	61.9
Total operating revenues	$ 2,317.1	104%	$ 2,199.8	97%	$ 8,744.1	98%	$ 8,297.9
Net realized capital gains (losses), including recognition of front-end fee revenues(5)	(81.1)	(4)	70.8	3	140.8	2	403.5
Total consolidated revenues	$ 2,236.0	100%	$ 2,270.6	100%	$ 8,884.9	100%	$ 8,701.4
Operating earnings (loss):							
U.S. Asset Management and Accumulation	$ 88.8	51%	$ 88.7	62%	$ 356.6	57%	$ 356.6
International Asset Management and Accumulation	(5.3)	(3)	(4.5)	(3)	(8.5)	(1)	(38.4)
Life and Health Insurance	42.5	24	36.6	25	162.3	26	90.7
Mortgage Banking	23.9	14	18.0	13	50.0	8	56.8
Corporate and Other	23.8	14	4.5	3	67.7	10	9.5
Total operating earnings	$ 173.7	100%	$ 143.3	100%	$ 628.1	100%	$ 475.2
INCOME STATEMENT DATA:							
Net income (loss):							
U.S. Asset Management and Accumulation	$ 70.6	67%	$ 69.9	36%	$ 320.7	52%	$ 321.2
International Asset Management and Accumulation	(25.6)	(24)	0.2	--	(7.1)	(1)	(30.7)
Life and Health Insurance	42.0	40	91.4	48	209.6	34	100.8
Mortgage Banking	23.9	22	18.0	9	50.0	8	56.8
Corporate and Other	(5.6)	(5)	13.6	7	47.0	7	294.0
Total net income	$ 105.3	100%	$ 193.1	100%	$ 620.2	100%	$ 742.1
BALANCE SHEET DATA:							
Total assets:							
U.S. Asset Management and Accumulation	$64,144.6	78%	$66,312.3	78%	$65,795.9	78%	$65,096.4
International Asset Management and Accumulation	4,928.1	6	5,550.8	7	5,525.9	7	5,926.8
Life and Health Insurance	10,406.6	13	10,080.9	12	10,421.1	12	9,949.8
Mortgage Banking	1,915.2	2	1,793.9	2	1,556.3	2	1,737.7
Corporate and Other(11)	1,017.9	1	1,064.9	1	957.8	1	1,121.5
Total assets	$82,412.4	100%	$84,802.8	100%	$84,257.0	100%	$83,832.2

	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	1999(2)	1998(2)	
	% OF TOTAL	AMOUNT	% OF TOTAL
		($ IN MILLIONS)	
OPERATING EARNINGS DATA:			
Operating revenues:			
U.S. Asset Management and Accumulation(9)	40%	$ 2,933.1	36%
International Asset Management and			

Accumulation	4	223.1	3
Life and Health Insurance	46	3,893.1	47
Mortgage Banking	4	340.6	4
Corporate and Other(9)(10)	1	342.5	4
Total operating revenues	95%	$ 7,732.4	94%
Net realized capital gains (losses), including recognition of front-end fee revenues(5)	5	464.5	6
Total consolidated revenues	100%	$ 8,196.9	100%
Operating earnings (loss):			
U.S. Asset Management and Accumulation	75%	$ 238.4	89%
International Asset Management and Accumulation	(8)	(35.4)	(13)
Life and Health Insurance	19	50.0	19
Mortgage Banking	12	58.8	22
Corporate and Other	2	(44.3)	(17)
Total operating earnings	100%	$ 267.5	100%
INCOME STATEMENT DATA:			
Net income (loss):			
U.S. Asset Management and Accumulation	43%	$ 277.0	40%
International Asset Management and Accumulation	(4)	(10.1)	(1)
Life and Health Insurance	13	112.0	16
Mortgage Banking	8	58.8	8
Corporate and Other	40	255.3	37
Total net income	100%	$ 693.0	100%
BALANCE SHEET DATA:			
Total assets:			
U.S. Asset Management and Accumulation	78%	$58,701.5	80%
International Asset Management and Accumulation	7	1,239.4	2
Life and Health Insurance	12	9,116.1	12
Mortgage Banking	2	1,810.4	2
Corporate and Other(11)	1	3,075.9	4
Total assets	100%	$73,943.3	100%

	AS OF MARCH 31,				AS OF DECEMBER 31,		
	2001(2)		2000(2)		2000(2)		1999(2)
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL	AMOUNT
	($ IN BILLIONS)						
OTHER SUPPLEMENTAL DATA:							
Assets Under Management: ($ in billions)							
U.S. Asset Management and Accumulation	$ 76.6	69%	$ 75.0	64%	$ 78.1	67%	$ 75.6
International Asset Management and Accumulation	25.1	22	29.8	25	28.4	24	30.6
Life and Health Insurance	9.4	8	9.1	8	9.3	8	8.7
Mortgage Banking(12)	0.4	--	1.8	1	0.2	--	0.5
Corporate and Other	1.5	1	2.0	2	1.5	1	1.2
Total assets under management	$ 113.0	100%	$ 117.7	100%	$ 117.5	100%	$ 116.6

	AS OF DECEMBER 31,		
	1999(2)	1998(2)	
	% OF TOTAL	AMOUNT	% OF TOTAL
		($ IN BILLIONS)	
OTHER SUPPLEMENTAL DATA:			
Assets Under Management: ($ in billions)			
U.S. Asset Management and Accumulation	65%	$ 67.2	84%
International Asset Management and Accumulation	26	1.2	1
Life and Health Insurance	8	8.2	10
Mortgage Banking(12)	--	0.7	1
Corporate and Other	1	3.1	4
Total assets under management	100%	$ 80.4	100%

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(1) Periods prior to December 31, 2000 have been reclassified to conform to the presentation for that period.

(2) Our consolidated financial results were affected by the following transactions that affect year-to-year comparability:

- On February 15, 2001, we disposed of all of the stock of Principal International Espana, S.A. de Seguros de Vida, our subsidiary in Spain, for nominal proceeds, resulting in a net realized capital loss of $38.4 million, ceasing our business operations in Spain. Total assets of our operations in Spain as of December 31, 2000 were $222.7 million. Revenues of $24.1 million from our operations in Spain were included in our consolidated results of operations for the three months ended March 31, 2000, and revenues of $49.4 million, $51.7 million and $46.0 million were included in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. We included net income of $3.3 million from our operations in Spain for the three months ended March 31, 2000, and a net loss of $1.2 million and net income of $0.9 million and $2.8 million in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. Our consolidated results of operations for the three months ended March 31, 2001 did not include revenues or net income from our operations in Spain.

- On August 31, 1999, we acquired several companies affiliated with Bankers Trust Australia Group from Deutsche Bank AG at a purchase price of $1.4 billion. The acquired companies now operate under the name BT Financial Group. We accounted for the acquisition using the purchase method. We included the results of operations of the acquired companies in our International Asset Management and Accumulation segment and our consolidated financial statements from the date of acquisition. Revenues of $63.5 million and net loss of $5.6 million were included in our consolidated results of operations for the three months ended March 31, 2001. Revenues of $72.7 million and net income of $0.5 million were included in our consolidated results of operations for the three months ended March 31, 2000. Revenues of $285.5 million and net income of $6.5 million were included in our consolidated results of operations for the year ended December 31, 2000. Revenues of $116.5 million and net loss of $3.1 million were included in our consolidated results of operations for the year ended December 31, 1999. We accounted for the purchase price as follows: $897.4 million of identifiable intangibles, consisting primarily of management rights and the BT brand name, $38.5 million of workforce intangibles and $408.6 million of resulting goodwill, which are being amortized on a straight line basis over 40 years, 8 years and 25 years, respectively.

- We acquired Compania de Seguros de Vida El Roble S.A., or El Roble, a Chilean life insurance company, for a purchase price of $73.4 million in July 1998. We included El Roble's financial results in our International Asset Management and Accumulation segment. We combined the operations of

our existing Chilean life insurance affiliate with the operations of El Roble to form Principal International de Chile. Our consolidated financial results related to these companies' combined operations include: total revenues of $47.0 million and $48.4 million for the three months ended March 31, 2001 and 2000, respectively, and $200.2 million, $178.1 million and $155.2 million for the years ended December 31, 2000, 1999 and 1998, respectively; and net income of $2.4 million and $2.3 million for the three months ended March 31, 2001 and 2000, respectively, and $10.2 million, $0.5 million and $17.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

- In July 1998, we established our residential mortgage loan wholesale distribution system, a new distribution channel, by acquiring ReliaStar Mortgage Corporation for a purchase price of $18.6 million. We have integrated the operations of ReliaStar Mortgage Corporation into Principal Residential Mortgage, Inc., as part of our Mortgage Banking segment.

- Effective April 1, 1998, we transferred substantially all of our health maintenance organization operations, or HMO operations, to Coventry Health Care, Inc., or Coventry, in exchange for 42% of their common stock. Our net equity in the transferred HMO operations had a carrying value of $170.0 million on April 1, 1998. We sold our remaining HMO operations in 1998 for $20.5 million resulting in no realized capital gain or loss. Prior to the

transfer to Coventry, our Corporate and Other segment included $266.7 million of HMO revenues in our results for 1998. We report our investment in Coventry in our Corporate and Other segment and account for it using the equity method. Our share of Coventry's net income was $4.9 million and $6.0 million for the three months ended March 31, 2001 and 2000, respectively, and $20.0 million and $19.1 million for the years ended December 31, 2000 and 1999, respectively. Our share of Coventry's net loss was $9.8 million for the year ended December 31, 1998. In September 2000, we sold a portion of our Coventry stock, which reduced our ownership interest to approximately 25% of Coventry stock and resulted in a net realized capital gain of $13.9 million, net of tax. Our carrying amount in Coventry was $128.9 million as of March 31, 2001.

(3) Statutory data have been provided from quarterly and annual statements of Principal Life filed with insurance regulatory authorities. Certain financial information for periods beginning on or after January 1, 2001 are not comparable to information from earlier periods. Statutory data as of or for the three months ended March 31, 2001 were prepared in conformity with the NAIC Codification of Statutory Accounting Principles ("Codification"), adopted as prescribed and permitted by the Insurance Division, Department of Commerce of the State of Iowa, effective January 1, 2001. As allowed by Codification, prior period information was not restated. Statutory data as of or for the three months ended March 31, 2000 and as of or for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 were prepared in conformity with accounting practices prescribed or permitted on the dates thereof by the Insurance Division, Department of Commerce of the State of Iowa.

(4) Codification, as adopted by Principal Life on January 1, 2001, has significantly impacted the reporting of Principal Life's statutory premiums and deposits for the three months ended March 31, 2001. Under Codification, amounts received for deposit-type contracts are no longer reported in the statement of operations as revenue, but rather are reported directly as an increase in an appropriate policy reserve account, a treatment that is similar to that under U.S. GAAP. This has the effect of decreasing reported total revenues and total expenses of Principal Life, with no effect to statutory net income or statutory surplus. Premiums and deposits for the three months ended March 31, 2000 and for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 included amounts received for deposit-type contracts of $3,190.0 million, $11,273.2 million, $11,571.5 million, $10,312.6 million, $8,694.9 million and $7,493.9 million, respectively.

(5) Net realized capital gains (losses), as adjusted, are net of tax, related changes in the amortization pattern of deferred policy acquisition costs, recognition of front-end fee revenues for sales charges on pension products and services and net realized capital gains credited to customers. This presentation may not be comparable to presentations made by other companies. Deferred policy acquisition costs represent commissions and other selling expenses that vary with and are directly related to the production of business. These acquisition costs are deferred and amortized in conformity with GAAP.

Following is a reconciliation of net realized capital gains from the consolidated financial statements and the adjustment made to calculate segment operating earnings for the periods indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,				
	2001	2000	2000	1999	1998	1997	1996
	($ IN MILLIONS)						
Net realized capital gains (losses)	$(80.9)	$ 70.3	$139.9	$ 404.5	$ 465.8	$175.3	$ 387.8
Recognition of front-end fee revenues	(0.2)	0.5	0.9	(1.0)	(1.3)	(0.9)	--
Net realized capital gains (losses), including recognition of front-end fee revenues	(81.1)	70.8	140.8	403.5	464.5	174.4	387.8
Amortization of deferred policy acquisition costs related to net realized capital gains (losses)	1.0	0.2	(0.3)	4.4	5.7	(1.7)	--
Amounts credited to contractholder accounts	--	--	--	--	(26.3)	--	--
Non-recurring net realized capital gains (losses)	--	--	--	--	(1.7)	--	--
Net realized capital gains (losses), including recognition of front-end fee revenues, net of related amortization of deferred policy acquisition costs and amounts credited to contractholders	(80.1)	71.0	140.5	407.9	442.2	172.7	387.8
Income tax effect	32.2	(21.2)	(47.4)	(141.0)	(121.5)	(61.3)	(126.8)
Net realized capital gains (losses), as adjusted	$(47.9)	$ 49.8	$ 93.1	$ 266.9	$ 320.7	$111.4	$ 261.0

(6) For the three months ended March 31, 2001, we excluded $20.5 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included the negative effects of (a) a cumulative effect of accounting change related to our implementation of SFAS 133 ($10.7 million), as discussed in Note 2 to Principal Mutual Holding Company's unaudited consolidated financial statements; (b) a loss contingency reserve established for sales practices litigation ($5.9 million); and (c) expenses related to our demutualization ($3.9 million).

For the three months ended March 31, 2000, we did not exclude non-recurring items from net income for our presentation of operating earnings.

For the year ended December 31, 2000, we excluded $101.0 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included the negative effects of (a) a loss contingency reserve established for sales practices litigation ($93.8 million) and (b) expenses related to our demutualization ($7.2 million).

For the year ended December 31, 1998, we excluded $104.8 million of non-recurring items, net of tax, from net income for our presentation of operating earnings. The non-recurring items included:

- the positive effects of (a) Principal Life's release of tax reserves and related accrued interest ($164.4 million) and (b) accounting changes by our international operations ($13.3 million); and

- the negative effects of (a) expenses and adjustments for changes in amortization assumptions for deferred policy acquisition costs related to our corporate structure change to a mutual insurance holding company, ($27.4 million) and (b) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

(7) We define operating return on average equity as operating earnings divided by average total equity, excluding accumulated other comprehensive income. The returns for interim reporting periods are calculated by using operating earnings for the trailing twelve months. Accumulated other comprehensive income has been excluded due to its volatility between periods and because such data are often excluded when evaluating the overall financial performance of insurers. Operating return on average equity should not be considered a substitute for any GAAP measure of performance.

(8) We define total return on average equity as net income divided by average total equity, excluding accumulated other comprehensive income. The returns for interim reporting periods are calculated by using net income for the trailing twelve months. Accumulated other comprehensive income has been excluded due to its volatility between periods and because such data are often excluded when evaluating the overall financial performance of insurers.

(9) We transferred our U.S. investment management operations from our Corporate and Other segment to our U.S. Asset Management and Accumulation segment effective January 1, 1999. The U.S. Asset Management and Accumulation segment received fee revenues for performing investment management services for other segments in 2001, 2000 and 1999. The Corporate and Other segment received fee revenues for performing investment management services for other segments prior to 1999.

(10) Includes inter-segment eliminations primarily related to real estate joint venture rental income. The Corporate and Other segment reported rental income from real estate joint ventures for office space used by other segments.

(11) Includes inter-segment elimination amounts related to internally generated mortgage loans and an internal line of credit. The U.S. Asset Management and Accumulation segment and Life and Health Insurance segment reported mortgage loan assets issued for real estate joint ventures. These mortgage loans were reported as liabilities in the Corporate and Other segment. In addition, the Corporate and Other segment managed a revolving line of credit used by other segments.

(12) Excludes our mortgage loan servicing portfolio.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma condensed consolidated financial information presented below for Principal Financial Group, Inc. gives effect to:

- the demutualization;
- the sale of shares of common stock in this offering; and
- the application of the estimated net proceeds from this offering as described in "Use of Proceeds," as if the demutualization and the initial public offering had occurred as of March 31, 2001 for purposes of the unaudited pro forma condensed consolidated statement of financial position, and as of January 1, 2000 for purposes of the unaudited pro forma condensed consolidated statement of operations for the three months ended March 31, 2001 and the year ended December 31, 2000.

The principal assumptions used in the pro forma information are as follows:

- 109,526,316 shares of common stock are sold to investors in the offering at a price of $19.00 per share;
- 260,473,684 shares of common stock are allocated and issued to policyholders entitled to receive compensation in the demutualization, of which 50,000,000 shares are allocated and issued as part of the Separate Account Policy Credits;
- 89,526,316 shares of common stock are allocated but not issued to policyholders entitled to receive compensation in the demutualization who receive payments in the form of cash or policy credits at an assumed initial public offering price of $19.00 per share, rather than in shares of common stock; and
- a federal income tax rate of 35% is used to show the income tax effects of the pro forma adjustments.

The estimated initial public offering prices per share are used for illustrative purposes only and are not intended to predict the actual initial public offering price. The initial public offering price will depend on many factors and cannot be known at this time.

The pro forma information reflects gross proceeds of $2,081.0 million from the issuance of the shares, less an assumed underwriting discount and offering expenses aggregating $93.9 million, or net proceeds from the offering of $1,987.1 million. Of the estimated net proceeds, we have assumed that Principal Financial Group, Inc. was entitled to and did retain $250.0 million to be used for general corporate purposes and for payment of a dividend, if any, to our stockholders in the first year after the date of the closing of this offering, and the remaining $1,737.1 million will be contributed to Principal Life. For purposes of the pro forma statement of financial position, we have estimated that $19.0 million pre-tax will be required for the cost of additional nonrecurring expenses related to the demutualization, $1,533.0 million will be used to make elective cash payments and fund Account Value Policy Credits to policyholders entitled to receive these forms of compensation in the demutualization and $168.0 million will be used to support compensation to policyholders eligible solely for cash or policy credits.

The pro forma information is based on available information and on assumptions management believes are reasonable. The pro forma information is provided for informational purposes only. This information does not necessarily indicate our consolidated financial position or our consolidated results of operations had these transactions been consummated on the dates assumed. It also does not in any way represent a projection or forecast of our consolidated financial position or consolidated results of operations for any future date or period.

The pro forma information should be read in conjunction with our consolidated financial statements and the notes to the financial statements, included in this prospectus, and with the other information included in this prospectus, including the information provided under "The Demutualization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business".

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	AS OF MARCH 31, 2001			
	HISTORICAL	THE DEMUTUALIZATION	THE INITIAL PUBLIC OFFERING	PRO FORMA
	($ IN MILLIONS)			
ASSETS				
Invested assets:				
Fixed maturities, available-for-sale	$29,110.8	$ --	$ --	$29,110.8
Equity securities, available-for-sale	618.6	--	--	618.6
Mortgage loans	11,378.6	--	--	11,378.6
Real estate	1,186.1	--	--	1,186.1
Policy loans	819.3	--	--	819.3
Other investments	889.2	--	--	889.2
Total invested assets	44,002.6			44,002.6
Cash and cash equivalents	525.6	(1,533.0)(1) (12.4)(5)	1,987.1(2)	967.3
Accrued investment income	516.7			516.7
Premiums due and other receivables	335.2	--	--	335.2
Deferred policy acquisition costs	1,268.9	--	--	1,268.9
Property and equipment	500.9	--	--	500.9
Goodwill and other intangibles	1,225.5	--	--	1,225.5
Mortgage loan servicing rights	1,164.0	--	--	1,164.0
Separate account assets	31,638.8	950.0(7)	--	32,588.8
Other assets	1,234.2	--	--	1,234.2
Total assets	$82,412.4	$ (595.4)	$1,987.1	$83,804.1
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Contractholder funds	$24,919.0	$ --	$ --	$24,919.0
Future policy benefits and claims	13,252.5	168.0(1)	--	13,420.5
Other policyholder funds	592.2	--	--	592.2
Short-term debt	550.1	--	--	550.1
Long-term debt	1,294.1	--	--	1,294.1
Income taxes currently payable	149.3	--	--	149.3
Deferred income taxes	587.3	--	--	587.3
Separate account liabilities	31,638.8	950.0(7)		32,588.8
Other liabilities	2,988.3	--	--	2,988.3
Total liabilities	75,971.6	1,118.0	--	77,089.6
Stockholders' equity:				
Common stock, $0.01 par value; 2.5 billion shares authorized; 370.0 million shares issued and outstanding(6)	--	2.6(3)	1.1(2)	3.7
Additional paid-in capital	--	4,701.8(3)	1,986.0(2)	6,687.8
Retained earnings	6,417.8	(1,701.0)(1) (4,704.4)(3) (12.4)(5)	--	--
Accumulated other comprehensive income	23.0	--	--	23.0
Total stockholders' equity	6,440.8	(1,713.4)	1,987.1	6,714.5
Total liabilities and stockholders' equity	$82,412.4	$ (595.4)	$1,987.1	$83,804.1

See notes to unaudited pro forma condensed consolidated financial information.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	FOR THE THREE MONTHS ENDED MARCH 31, 2001			
	HISTORICAL	THE DEMUTUALIZATION	THE INITIAL PUBLIC OFFERING	PRO FORMA
	($ AND SHARES IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues:				
Premiums and other considerations	$1,064.2	$ --	$ --	$1,064.2
Fees and other revenues	413.0	--	--	413.0
Net investment income	839.7	--	--	839.7
Net realized capital losses	(80.9)	--	--	(80.9)
Total revenues	2,236.0	--	--	2,236.0
Expenses:				
Benefits, claims and settlement expenses	1,391.9	--	--	1,391.9
Dividends to policyholders	81.0	--	--	81.0
Operating expenses	622.7	(6.0)(4)	--	616.7
Total expenses	2,095.6	(6.0)	--	2,089.6
Income before income taxes and cumulative effect of accounting change	140.4	6.0	--	146.4
Income taxes	24.4	2.1	--	26.5
Income before cumulative effect of accounting change	116.0	3.9	--	119.9
Cumulative effect of accounting change, net of related income taxes	(10.7)	--	--	(10.7)
Net income	$ 105.3	$ 3.9	$ --	$ 109.2
Income per share				$ 0.30
Shares used in calculating per share amount(6)				370.0

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31, 2000			
	HISTORICAL	THE DEMUTUALIZATION	THE INITIAL PUBLIC OFFERING	PRO FORMA
	($ AND SHARES IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues:				
Premiums and other considerations	$3,996.4	$ --	$ --	$3,996.4
Fees and other revenues	1,576.3	--	--	1,576.3
Net investment income	3,172.3	--	--	3,172.3
Net realized capital gains	139.9	--	--	139.9
Total revenues	8,884.9	--	--	8,884.9
Expenses:				
Benefits, claims and settlement expenses	5,232.3	--	--	5,232.3
Dividends to policyholders	312.7	--	--	312.7
Operating expenses	2,479.4	(11.1)(4)	--	2,468.3
Total expenses	8,024.4	(11.1)	--	8,013.3
Income before income taxes	860.5	11.1	--	871.6
Income taxes	240.3	3.9	--	244.2
Net income	$ 620.2	$ 7.2	$ --	$ 627.4
Income per share				$ 1.70
Shares used in calculating per share amount(6)				370.0

See notes to unaudited pro forma condensed consolidated financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(1) Represents ($ in millions):

Cash and Account Value Policy Credits assumed to be distributed to eligible policyholders	$1,533.0
Compensation to policyholders eligible solely for cash or policy credits	168.0
Total	$1,701.0

(2) Represents gross proceeds of $2,081.0 million from the sale of 109,526,316 shares of common stock at an assumed initial public offering price of $19.00 per share, less underwriting discounts and offering expenses of $93.9 million.

(3) Represents the reclassification of the residual retained earnings ($4,704.4 million) of Principal Mutual Holding Company to common stock ($2.6 million) and additional paid-in capital ($4,701.8 million) to reflect the demutualization.

(4) Represents the elimination of $6.0 million, or $3.9 million net of tax, of expenses related to the demutualization incurred through the three months ended March 31, 2001, and $11.1 million, or $7.2 million net of tax, of expenses related to the demutualization incurred through December 31, 2000.

(5) The estimated additional nonrecurring expenses of $19.0 million, or $12.4 million net of tax, related to the demutualization, assumed to be incurred as of the date of the unaudited pro forma condensed consolidated statement of financial condition, were charged to equity. The pro forma condensed consolidated statement of operations does not reflect such nonrecurring expenses.

(6) The assumed number of shares used in the calculation of unaudited pro forma net income per common share was determined as follows:

	NUMBER OF SHARES
Assumed shares allocated to eligible policyholders	350,000,000
Less: assumed shares allocated to eligible policyholders who receive cash or policy credits(a)	89,526,316
Assumed shares issued to eligible policyholders(b)	260,473,684
Assumed shares issued in this offering	109,526,316
Total outstanding shares of common stock	370,000,000

(a) Gives effect to (1) $1,533.0 million to pay cash and fund Account Value Policy Credits to eligible policyholders and (2) $168.0 million to support compensation to policyholders eligible solely for cash or policy credits.

(b) Includes 50,000,000 shares issued as part of the Separate Account Policy Credits. These shares are included in both basic and diluted income per share calculations.

The plan of conversion provides that the amount of consideration paid in cash or provided as policy credits to an eligible policyholder will equal the number of shares allocated to such eligible policyholder multiplied by the initial public offering price.

(7) Represents the value of 50,000,000 shares placed in the Separate Account for Qualified Plan Customers at an assumed share price of $19.00 per share. The valuations of the separate account shares are recorded at fair value and are reported as separate account assets and separate account liabilities in the unaudited pro forma condensed consolidated statement of financial position. Changes in the fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact the pro forma results of operations.

UNAUDITED PRO FORMA SUPPLEMENTARY INFORMATION

The pro forma supplementary information presented below was derived from the unaudited pro forma condensed consolidated financial information and the notes included in this prospectus. The pro forma supplementary information gives effect to the demutualization and the initial public offering as if they had occurred as of March 31, 2001 for purposes of the information derived from the unaudited pro forma condensed consolidated statement of financial position and as of January 1, 2000 for purposes of the information derived from the unaudited pro forma condensed consolidated statement of operations for the three months ended March 31, 2001 and the year ended December 31, 2000. The pro forma supplementary information is provided for informational purposes only and should not be construed to be indicative of our consolidated financial position or our consolidated results of operations had these transactions been consummated on the dates assumed, and do not in any way represent a projection or forecast of our consolidated financial position or consolidated results of operations for any future date or period. The pro forma supplementary information below shall be read in conjunction with the information provided under, or referred to in, "Unaudited Pro Forma Condensed Consolidated Financial Information."

THE ESTIMATED INITIAL PUBLIC OFFERING PRICES PER SHARE IN THE TABLES BELOW ARE USED FOR ILLUSTRATIVE PURPOSES ONLY AND ARE NOT INTENDED TO PREDICT THE ACTUAL INITIAL PUBLIC OFFERING PRICE. THE INITIAL PUBLIC OFFERING PRICE WILL DEPEND ON MANY FACTORS AND CANNOT BE KNOWN AT THIS TIME.

The information presented in the table below gives effect to the sale of 115,102,067, 109,526,316 and 106,400,270 shares of common stock, respectively, in the offering based upon the assumed initial public offering price per share of $14.00, $19.00 and $24.00, respectively. This information is intended to illustrate how the unaudited pro forma condensed consolidated financial information would be affected by varying the price per share in the offering.

	ASSUMING THE FOLLOWING INITIAL PUBLIC OFFERING PRICE		
	$14.00	$19.00	$24.00
	($ AND SHARES IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
SHARE INFORMATION			
Assumed shares allocated to eligible policyholders	350.0	350.0	350.0
Less: Assumed shares allocated to eligible policyholders who receive cash or policy credits	(89.5)	(89.5)	(89.5)
Assumed shares issued to eligible policyholders	260.5	260.5	260.5
Assumed shares issued in this offering	115.1	109.5	106.4
Total outstanding shares of common stock	375.6	370.0	366.9
OWNERSHIP PERCENTAGE			
Eligible policyholders	69.4%	70.4%	71.0%
Purchasers in the offering	30.6%	29.6%	29.0%
FOR THE THREE MONTHS ENDED MARCH 31, 2001			
Net Income	$ 105.3	$ 105.3	$ 105.3
The demutualization(1)	3.9	3.9	3.9
Pro forma net income	$ 109.2	$ 109.2	$ 109.2
Pro forma net income per share	$ 0.29	$ 0.30	$ 0.30
FOR THE YEAR ENDED DECEMBER 31, 2000			
Net Income	$ 620.2	$ 620.2	$ 620.2
The demutualization(2)	7.2	7.2	7.2
Pro forma net income	$ 627.4	$ 627.4	$ 627.4
Pro forma net income per share	$ 1.67	$ 1.70	$ 1.71
AS OF MARCH 31, 2001			
Total stockholders' equity	$ 6,440.8	$ 6,440.8	$ 6,440.8
The demutualization(3)	(1,265.7)	(1,713.4)	(2,161.0)
The initial public offering(4)	1,537.5	1,987.1	2,439.7
Pro forma total stockholders' equity	$ 6,712.6	$ 6,714.5	$ 6,719.5
Pro forma book value per share	$ 17.87	$ 18.15	$ 18.31

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(1) Represents the elimination of expenses related to the demutualization incurred through March 31, 2001.

(2) Represents the elimination of expenses related to the demutualization incurred through December 31, 2000.

(3) Represents:

- The payment of $1,129.5 million, $1,533.0 million and $1,936.3 million, respectively, to pay cash and fund Account Value Policy Credits to eligible policyholders;

- The payment of $123.8 million, $168.0 million and $212.3 million, respectively, to support compensation to policyholders eligible solely for cash or policy credits; and

- Estimated additional non-recurring expenses of $12.4 million, net of tax, related to the demutualization.

(4) Represents the assumed gross proceeds of $1,611.4 million, $2,081.0 million and $2,553.6 million, respectively, from the sale of common stock in the offering less underwriting discounts and offering expenses of $73.9 million, $93.9 million and $113.9 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the consolidated results of our operations and financial condition should be read in conjunction with the "Selected Historical Financial Information," the consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this prospectus.

FORWARD-LOOKING INFORMATION

Our narrative analysis below and in "Business" contains forward-looking statements that are intended to enhance the reader's ability to assess our future financial performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should" or similar expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive risks and uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. See "Risk Factors" for a discussion of risks and uncertainties that may cause our actual results to differ materially.

OVERVIEW

We are a leading provider of retirement savings, investment and insurance products and services. We have four operating segments:

- U.S. Asset Management and Accumulation, which consists of our asset accumulation operations which provide products and services, including retirement savings and related investment products and services, and our asset management operations conducted through Principal Capital Management, our U.S.-based asset manager. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the United States, with a concentration on small and medium-sized businesses, which we define as businesses with fewer than 1,000 employees. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans and non-qualified executive benefit plans. We also offer annuities, mutual funds and bank products to the employees of our business customers and other individuals.

- International Asset Management and Accumulation, which consists of BT Financial Group, our Australia-based asset manager, and Principal International. Our acquisition of BT Financial Group in 1999 was a central element in the expansion of our international asset management and accumulation businesses. Through Principal International, we offer retirement products and services, annuities, mutual funds and life insurance. We operate through subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong and joint ventures in Brazil, Japan and India.

- Life and Health Insurance, which provides individual life and disability insurance as well as group life and health insurance throughout the United States. Our individual insurance products include interest-sensitive life, traditional life and disability insurance. Our group insurance products include life, disability, medical, dental and vision insurance, and administrative services.

- Mortgage Banking, which engages in originating, purchasing, selling and servicing residential mortgage loans in the United States.

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

REVENUES AND EXPENSES

Our segments earn revenues and incur expenses from various sources as outlined in the following tables. The following tables provide a detailed list of the sources and their relationship to our financial statement line items.

REVENUES. The table below provides a summary of our sources of revenues by segment:

REVENUE SOURCES BY SEGMENT

REVENUE SOURCES	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER
PREMIUMS AND OTHER CONSIDERATIONS:					
Single premium group and individual annuities with life contingencies	X	X			
Group and individual life insurance		X	X		
Group medical, dental and vision insurance			X		
Group and individual disability insurance			X		
FEES AND OTHER REVENUES:					
Administrative and asset management fee revenues from group and individual variable annuities	X	X			
Administrative fee revenues from pension plans	X	X			
Asset management and administrative fee revenues from institutional asset management and mutual funds	X	X			
Assets backing margin lending operations		X			
Mortality, administrative and asset management fee revenues from variable and universal life insurance products		X	X		
Group fee-for-service business			X		
Servicing and originating residential mortgage loans		X		X	
Net gains and losses on the sale of residential mortgage loans and residential mortgage loan servicing rights				X	
Fee revenues from the marketing of other products to our servicing portfolio customers				X	
NET INVESTMENT INCOME:					
Securitizations of commercial mortgage-backed securities	X				
Assets backing group guaranteed investment contracts and individual fixed annuities	X	X			
Assets backing life and health insurance product liabilities		X	X		
Securitizations of residential mortgage loans				X	
Assets backing capital	X	X	X	X	X

EXPENSES. The table below provides a summary of our expenses by segment:

EXPENSES BY SEGMENT

EXPENSES	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER
BENEFITS, CLAIMS AND SETTLEMENT EXPENSES:					
Benefits paid and reserve increases on single premium group and individual annuities with life contingencies	X	X			
Interest credited on group guaranteed investment contracts and individual fixed annuities	X	X			
Benefits paid and reserve increases on group and individual life insurance		X	X		
Benefits paid and reserve increases on group medical, dental and vision insurance			X		
Benefits paid and reserve increases on group and individual disability insurance			X		
DIVIDENDS TO POLICYHOLDERS	X		X		
OPERATING EXPENSES:					
General business expenses and commissions, net of deferred expenses	X	X	X	X	X
Amortization of deferred policy acquisition costs	X	X	X		
Premium taxes	X	X	X		
Income taxes	X	X	X	X	X
Amortization of goodwill and other intangibles	X	X	X	X	X
Amortization of residential mortgage loan servicing rights		X		X	
Net gains and losses on mortgage loan servicing hedge activity				X	
Interest expense on corporate debt					X

PROFITABILITY

Our profitability depends in large part upon:

- our amount of assets under management;
- the spreads we earn on our policyholders' general account balances;
- our ability to generate fee revenues greater than the amount it costs us to administer pension products, manage investments for retail and institutional clients and provide other administrative services;
- our ability to price our life and health insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring and administering those products, which is primarily a function of competitive conditions, persistency, our ability to assess and manage trends in mortality and morbidity experience, our ability to generate investment earnings and our ability to maintain expenses in accordance with pricing assumptions;
- our ability to effectively monitor and price residential mortgage loans we originate, purchase, and sell and to manage the costs to service residential mortgage loans;
- our ability to effectively hedge the effect of interest rate changes on our residential mortgage servicing rights. See "Business -- Mortgage Banking -- Risk Management";
- our ability to manage our investment portfolio to maximize investment returns and minimize risks such as interest rate changes or defaults or impairments of invested assets;
- fluctuations of foreign currency exchange rates; and
- our ability to manage our operating expenses.

TRENDS

U.S. ASSET MANAGEMENT AND ACCUMULATION. Our sales of pension and other asset accumulation products and services in the United States have been affected by overall trends in the U.S. retirement services industry, as our customers have begun to rely less on defined benefit retirement plans, social security and other government programs. Current trends in the work environment include a more mobile workforce and the desire of employers to pass the market risk of retirement investments to employees by shifting from offering defined benefit plans to offering defined contribution plans. These trends are increasing the demand for defined contribution pension arrangements such as 401(k) plans, as well as mutual funds and variable annuities. Also, the "baby-boom" generation of U.S. workers has reached an age where saving is critical and they continue to seek tax-advantaged investment products for retirement. Considering these trends, our group and individual variable annuity assets under management and other fee-based asset accumulation products have continued to increase, while traditional spread-based assets under management have grown at a slower rate.

The table below provides a summary of assets under management from our fee-based asset accumulation products and spread-based asset accumulation products as of March 31, 2001, and December 31, 2000, 1999, and 1998:

	U.S. ASSET ACCUMULATION		
AS OF	FEE-BASED ASSETS UNDER MANAGEMENT	SPREAD-BASED ASSETS UNDER MANAGEMENT	TOTAL ASSETS UNDER MANAGEMENT
	($ IN BILLIONS)		
March 31, 2001	$39.3	$30.3	$69.6
December 31, 2000	42.5	28.5	71.0
December 31, 1999	42.1	28.2	70.3
December 31, 1998	34.5	29.0	63.5

Asset management services have been among the most profitable and rapidly growing sectors of the financial services industry, at both the retail and institutional level. We formally established Principal Capital Management, our U.S-based asset manager, in 1999 to consolidate our investment operations and to enter the third-party institutional asset management market. We seek to take advantage of current trends which indicate that both retail and institutional investors embrace specialization, providing increased fees to successful active managers with expertise in specialty and niche areas. Our U.S. third-party assets under management increased to $6.1 billion as of March 31, 2001, from $3.5 billion since the establishment of Principal Capital Management on January 1, 1999.

The following table provides a summary of Principal Capital Management's affiliated and third-party assets under management as of March 31, 2001, and December 31, 2000, 1999, and 1998:

	PRINCIPAL CAPITAL MANAGEMENT		
AS OF	AFFILIATED ASSETS UNDER MANAGEMENT	THIRD-PARTY ASSETS UNDER MANAGEMENT	TOTAL ASSETS UNDER MANAGEMENT(1)
	($ IN BILLIONS)		
March 31, 2001	$75.7	$6.1	$81.8
December 31, 2000	76.9	6.3	83.2
December 31, 1999	77.5	4.7	82.2
December 31, 1998(2)	73.6	3.5	77.1

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(1) Includes all assets for which Principal Capital Management provides investment advisory services.

(2) Represents assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION. Our international asset management and accumulation businesses focus on countries with a trend toward private sector defined contribution pension systems. Our acquisition of BT Financial Group in August 1999 is consistent with these trends. We are seeking to take advantage of an Australian government requirement for all employers to contribute 8% of an employee's salary to an employer-sponsored defined contribution retirement plan, referred to as superannuation. The required employer contribution is scheduled to rise to 9% by 2002.

The governments of other countries have also instituted privatized pension systems requiring employees who join the labor force to contribute to a private pension system. With variations depending upon the specific country, we have targeted these markets for sales of retirement and related products and services, including defined contribution pension plans, annuities and mutual funds to individuals and businesses. In several of our international markets, we complement our sales of these products with sales of life insurance products.

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

LIFE AND HEALTH INSURANCE. Our U.S. individual life insurance premiums have been influenced by both economic and industry trends. Both fee revenues and policyholder liabilities related to our interest-sensitive life insurance products have increased due to a strong equity market and customer preference for insurance products with variable investment and tax-advantaged accumulation product options. Premiums and policyholder liabilities related to our individual traditional life insurance products have remained relatively flat.

	INDIVIDUAL LIFE AND HEALTH			
	INTEREST-SENSITIVE LIFE INSURANCE		TRADITIONAL LIFE INSURANCE	
AS OF OR FOR THE	FEE REVENUES	POLICYHOLDER LIABILITIES(1)	PREMIUMS	POLICYHOLDER LIABILITIES
	($ IN MILLIONS)			
Three months ended March 31, 2001	$24.1	$1,575.4	$194.9	$5,499.6
Year ended December 31, 2000	89.1	1,559.2	772.8	5,468.1
Year ended December 31, 1999	61.7	1,231.2	780.8	5,289.1
Year ended December 31, 1998	49.7	1,068.2	792.3	5,083.6

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(1) Includes separate account liabilities for policies with variable insurance options.

Increased competition in the U.S. group health insurance industry has affected pricing of premiums. Most group health insurance policies are subject to annual review by policyholders, who may seek competitive quotations prior to renewal. Regulation has had and may continue to have an adverse effect on our ability to adequately price group health insurance products. At the same time, health care costs have continued to rise, placing pressure on margins. Our group health insurance premiums increased in recent years due to competitive prices and new sales initiatives. These increases were partially offset by our decisions to exit under-performing and non-strategic businesses and markets. Effective April 1, 1998, we transferred substantially all of our HMO operations to Coventry Health Care, Inc., due to unsatisfactory scale and return from these operations. Medical insurance premiums from our HMO operations were $898.2 million in 1997. Also during 1998, we ceased sales of medical insurance products in fourteen states where we were not achieving desired returns. Medical insurance premiums from these states were $209.2 million in 1997. We are now focusing on sales of medical insurance products in select geographic markets

where we believe we can achieve satisfactory returns. Effective January 1, 2000, we ceased new sales of our Medicare supplement insurance product and effective July 1, 2000, reinsured all existing business. We continue to sell group dental and vision insurance,

disability insurance and life insurance to employers desiring a broad range of employee benefit products and services for their employees. We have targeted these non-medical products for growth, especially dental and vision insurance products. Our group health insurance and group life insurance premiums for the three months ended March 31, 2001, and for the years ended December 31, 2000, 1999, and 1998 were as follows:

	GROUP HEALTH INSURANCE				GROUP LIFE INSURANCE
FOR THE	MEDICAL INSURANCE PREMIUMS	MEDICARE SUPPLEMENT INSURANCE PREMIUMS(1)	DENTAL AND VISION INSURANCE PREMIUMS	DISABILITY INSURANCE PREMIUMS	LIFE INSURANCE PREMIUMS
	($ IN MILLIONS)				
Three months ended March 31, 2001.....	$ 384.0	$ --	$ 88.4	$23.7	$ 59.3
Year ended December 31, 2000.....	1,601.8	98.4	332.7	92.9	277.7
Year ended December 31, 1999.....	1,563.5	164.6	259.0	84.5	273.6
Year ended December 31, 1998.....	1,523.0	121.2	202.7	81.1	350.8

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(1) Effective January 1, 2000, we ceased new sales of our Medicare supplement insurance and effective July 1, 2000, reinsured all existing business.

MORTGAGE BANKING. We believe residential mortgages play a central role in the financial planning activities of individuals in the United States. As a result, our mortgage banking operations represent a component of our overall portfolio of market-driven financial products and services.

Interest rate trends significantly impact our residential mortgage business. Since 1998, interest rates in the U.S. have remained relatively lower than in the early 1990s. During 1998 and through most of 1999, the strong economy coupled with relatively low interest rates created a favorable real estate market that increased production of residential mortgage loans throughout the industry and also contributed to an increase in residential mortgage loan refinancing. Starting late in 1999, interest rates increased, resulting in decreases in production and refinancing of residential mortgage loans throughout the industry. This trend reversed in early 2001, when interest rates decreased, resulting in increases in mortgage loan production.

We manage growth in the mortgage loan servicing portfolio, through retention of mortgage loan production and the sale and acquisition of mortgage loan servicing rights. Our servicing portfolio grew at a compound annual rate of 15% from December 31, 1998 through December 31, 2000, reflecting our increased retention of servicing rights of loans produced and acquisition of servicing rights. Growth in the mortgage loan servicing portfolio was slower in 2000, as a result of a decrease in mortgage loan production and an increase in sales of mortgage loan servicing rights. Our residential mortgage loan production and the unpaid principal balances in our residential mortgage loan servicing portfolio as of or for the three months ended March 31, 2001, and as of or for the years ended December 31, 2000, 1999, and 1998 were as follows:

AS OF OR FOR THE	RESIDENTIAL MORTGAGE LOAN PRODUCTION	RESIDENTIAL MORTGAGE LOAN SERVICING PORTFOLIO
- ----------	($ IN MILLIONS)	
Three months ended March 31, 2001.....	$ 4,854.9	$57,304.8
Year ended December 31, 2000.....	8,311.8	55,987.4
Year ended December 31, 1999.....	13,307.3	51,875.5
Year ended December 31, 1998.....	12,120.5	41,973.0

INVESTMENT ACTIVITY

Our primary investment objective is to maximize after-tax investment returns within risk parameters we view as acceptable. In 2000 and 1999, we sold lower yielding fixed maturity securities to allow for reinvestment in higher yielding fixed maturity securities. This repositioning of our investment portfolio generated net realized capital losses in our fixed maturity security portfolio. Net realized capital losses related to fixed maturities were $125.9 million and $96.9 million for the years ended December 31, 2000 and 1999, respectively.

In 1999 and 1998, we began repositioning our investment portfolio by selling invested assets with lower yields, primarily equities and real estate, and reinvesting the proceeds in assets with higher yields, primarily fixed maturities. Net realized capital gains related to equity securities were $383.0 million and $302.9 million for the years ended December 31, 1999 and 1998, respectively. Net realized capital gains related to real estate were $56.4 million and $120.6 million for the years ended December 31, 1999 and 1998, respectively.

In 1999, we sold a portion of our investment in United Payors and United Providers, a publicly traded service organization that acts as an intermediary between health care payors and health care providers, realizing an after-tax

capital gain of $17.9 million. In 2000, we sold our remaining investment and realized an after-tax capital gain of $58.9 million.

TRANSACTIONS AFFECTING COMPARABILITY OF RESULTS OF OPERATIONS

ACQUISITIONS AND DISPOSITIONS

We acquired and disposed of the following businesses, among others, during the past several years:

PRINCIPAL INTERNATIONAL ESPANA, S.A. DE SEGUROS DE VIDA. On February 15, 2001, we disposed of all of the stock of Principal International Espana, S.A. de Seguros de Vida, our subsidiary in Spain, for nominal proceeds, resulting in a net realized capital loss of $38.4 million, ceasing our business operations in Spain. Total assets of our operations in Spain as of December 31, 2000 were $222.7 million.

Revenues of $24.1 million from our operations in Spain were included in our consolidated results of operations for the three months ended March 31, 2000, and revenues of $49.4 million, $51.7 million and $46.0 million were included in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. We included net income of $3.3 million from our operations in Spain for the three months ended March 31, 2000, and a net loss of $1.2 million and net income of $0.9 million and $2.8 million in our results of operations for the years ended December 31, 2000, 1999 and 1998, respectively. Our consolidated results of operations for the three months ended March 31, 2001 did not include revenues or net income from our operations in Spain.

BT FINANCIAL GROUP. On August 31, 1999, we acquired several companies affiliated with Bankers Trust Australia Group from Deutsche Bank AG at a purchase price of $1.4 billion. The acquired companies now operate under the name of BT Financial Group. We accounted for the acquisition using the purchase method. The results of operations of the acquired companies have been included in our consolidated financial statements from the date of acquisition. We included revenues of $63.5 million and net loss of $5.6 million in our consolidated results of operations for the three months ended March 31, 2001. We included revenues of $72.7 million and net income of $0.5 million in our consolidated results of operations for the three months ended March 31, 2000. We included revenues of $285.5 million and net income of $6.5 million in our consolidated results of operations for the year ended December 31, 2000. We included revenues of $116.5 million and net loss of $3.1 million in our consolidated results of operations for the year ended December 31, 1999.

We accounted for the purchase price as follows: $897.4 million of identifiable intangibles, consisting primarily of management rights and the BT brand name, $38.5 million of workforce intangibles and $408.6 million of resulting goodwill. We are amortizing these intangible assets on a straight-line basis over 40 years, 8 years and 25 years, respectively. We report the goodwill and other intangibles, including the related amortization, in our International Asset Management and Accumulation segment.

We issued unsecured long-term debt of $665.0 million to partially fund our acquisition of BT Financial Group. We report this debt and related interest expense in our Corporate and Other segment.

COMPANIA DE SEGUROS DE VIDA EL ROBLE S.A. We acquired Compania de Seguros de Vida El Roble S.A., or El Roble, a Chilean life insurance company, at a purchase price of $73.4 million in July 1998. We included El Roble's financial results in our International Asset Management and Accumulation segment. The operations of our existing Chilean life insurance affiliate were combined with the operations of El Roble to form Principal International de Chile. Our consolidated financial results related to these companies' combined operations include: total revenues of $47.0 million and $48.4 million for the three months ended March 31, 2001 and 2000, respectively, and $200.2 million, $178.1 million and $155.2 million for the years ended December 31, 2000, 1999 and 1998, respectively; and net income of $2.4 million and $2.3 million for the three months ended March 31, 2001 and 2000, respectively, and $10.2 million, $0.5 million and $17.0 million for the years ended December 31, 2000, 1999 and 1998, respectively.

RELIASTAR MORTGAGE CORPORATION. In July 1998, we established our residential mortgage loan wholesale distribution system, a new distribution channel, by acquiring ReliaStar Mortgage Corporation at a purchase price of $18.6 million. The operations of ReliaStar Mortgage Corporation have been integrated into Principal Residential Mortgage, Inc., as part of our Mortgage Banking segment.

COVENTRY HEALTH CARE. Effective April 1, 1998, we transferred substantially all of our HMO operations to Coventry Health Care, Inc., or Coventry, in exchange for 42% of the common stock of Coventry. Our net equity in the transferred HMO operations had a carrying value of $170.0 million on April 1, 1998. We sold our remaining HMO operations in 1998 for $20.5 million resulting in no realized capital gain or loss. Prior to the transfer to Coventry, our Corporate and Other segment included $266.7 million of HMO revenues in our results for 1998.

We report our investment in Coventry in our Corporate and Other segment and account for it using the equity method. Our share of Coventry's net income was $4.9 million and $6.0 million for the three months ended March 31, 2001 and 2000, respectively, and $20.0 million and $19.1 million for the years ended December 31, 2000 and 1999, respectively. Our share of Coventry's net loss was $9.8 million for the year ended December 31, 1998. In September 2000, we sold a portion of our Coventry stock, which reduced our ownership to approximately 25% of Coventry and

resulted in a realized capital gain of $13.9 million, net of tax. Our carrying amount in Coventry was $128.9 million as of March 31, 2001.

PRINCIPAL CAPITAL MANAGEMENT. We transferred our U.S. investment management operations from our Corporate and Other segment to our U.S. Asset Management and Accumulation segment effective January 1, 1999. In connection with this transfer, we established Principal Capital Management to consolidate our U.S. asset management operations. Principal Capital Management is primarily composed of the former investment department of Principal Life and the investment professionals of Invista Capital Management, a registered investment advisor focused on the specialized needs of institutional clients. We included fee revenues of $7.4 million and $6.9 million for the three months ended March 31, 2001 and 2000, respectively, and $31.5 million and $36.2 million for the years ended December 31, 2000 and 1999, respectively, related to our third-party clients in our U.S. Asset Management and Accumulation segment. Prior to the formation of Principal Capital Management, we included fee revenues of $10.6 million in 1998, related to our third-party clients in our Corporate and Other segment.

REINSURANCE TRANSACTION

Effective July 1, 2000, we entered into a reinsurance agreement with General & Cologne Life Re of America to reinsure 100% of our Medicare supplement insurance block. Medicare supplement insurance premiums were $98.4 million and $75.9 million for the six months ended June 30, 2000 and 1999, respectively, and $164.6 million and $121.2 million for the years ended December 31, 1999 and 1998, respectively.

OPERATING EARNINGS AND NON-RECURRING ITEMS

For the three months ended March 31, 2001, we excluded $20.5 million of non-recurring items, net of tax, from net income for our presentation of consolidated operating earnings. The non-recurring items included the negative effects of: (1) a cumulative effect of accounting change related to our implementation of SFAS 133 ($10.7 million), as discussed in Note 2 to Principal Mutual Holding Company's unaudited consolidated financial statements; (2) a loss contingency reserve established for sales practices litigation ($5.9 million); and (3) expenses related to our demutualization ($3.9 million).

For the three months ended March 31, 2000, we did not exclude non-recurring items from net income for our presentation of operating earnings.

For the year ended December 31, 2000, we excluded $101.0 million of non-recurring items, net of tax, from net income for our presentation of consolidated operating earnings. The non-recurring items included the negative effects of: (1) a loss contingency reserve established for sales practices litigation ($93.8 million), and (2) expenses related to our demutualization ($7.2 million). See "Business -- Legal Proceedings".

For the year ended December 31, 1998, we excluded $104.8 million of non-recurring items, net of tax, from net income for our presentation of consolidated operating earnings. The non-recurring items included:

- the positive effects of: (1) Principal Life's release of tax reserves and related accrued interest in the amount of $164.4 million, consisting of $145.4 million in taxes and $19.0 million of interest, resulting from the decision of the Internal Revenue Service in 1998 to accept Principal Life's position on previously contested tax matters, and (2) accounting changes by our international operations ($13.3 million); and

- the negative effects of: (1) expenses and adjustments for changes in amortization assumptions for deferred policy acquisition costs related to our corporate structure change to a mutual insurance holding company ($27.4 million), and (2) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

FLUCTUATIONS IN FOREIGN CURRENCY TO U.S. DOLLAR EXCHANGE RATES

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

Foreign currency exchange rate fluctuations have not had a material impact on our consolidated financial results. Our consolidated operating earnings were negatively impacted $0.2 million for the three months ended March 31, 2001, $0.6 million for the year ended December 31, 2000 and $0.3 million for the year ended December 31, 1999, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to foreign currency exchange rate risk, see "-- Quantitative and Qualitative Information about Market Risk."

THE MUTUAL INSURANCE HOLDING COMPANY REORGANIZATION

Effective July 1, 1998, Principal Mutual Life Insurance Company formed Principal Mutual Holding Company, a mutual insurance holding company, and converted to Principal Life, a stock life insurance company. All of the shares of Principal Life were issued to Principal Mutual Holding Company through two newly formed Iowa intermediate holding companies, Principal Financial Group, Inc., and Principal Financial Services, Inc. The reorganization itself did not have a material financial impact on Principal Mutual Holding Company and its subsidiaries, including Principal Life, as the net assets transferred to achieve the change in legal organization were accounted for at historical carrying amounts in a manner similar to that in pooling-of-interests accounting.

In conjunction with the formation of the mutual insurance holding company, Principal Life established a Closed Block for the benefit of individual participating dividend-paying policies in force on that date. The Closed Block was designed to provide reasonable assurance to policyholders included in the Closed Block that, after the formation of the mutual insurance holding company, assets would be available to maintain dividends in aggregate in accordance with the 1997 policy dividend scales if the experience underlying such scales continued. Assets were allocated to the Closed Block in amounts such that their cash flows, together with anticipated revenues from policies included in the Closed Block, were reasonably expected to be sufficient to support such policies, including provision for payment of claims, expenses, charges and taxes, and to provide for the continuation of dividends in aggregate in accordance with the 1997 policy dividend scales if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if the experience changes.

Assets allocated to the Closed Block inure to the benefit of the holders of policies included in the Closed Block. Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held by Principal Mutual Holding Company. Principal Life will continue to pay guaranteed benefits under all policies, including the policies included in the Closed Block, in accordance with their terms. If the assets allocated to the Closed Block, the investment cash flows from those assets and revenues from the policies included in the Closed Block, including investment income thereon, prove to be insufficient to pay the benefits guaranteed under the policies included in the Closed Block, Principal Life will be required to make such payments from its general funds.

The formation of the Closed Block in 1998 did not have a material impact on our financial results. As of March 31, 2001, Closed Block assets and liabilities were $4,568.8 million and $5,597.6 million, respectively. As of December 31, 2000, Closed Block assets and liabilities were $4,507.4 million and $5,547.8 million, respectively. As of December 31, 1999, Closed Block assets and liabilities were $4,317.4 million and $5,394.6 million, respectively.

THE DEMUTUALIZATION

The board of directors of Principal Mutual Holding Company unanimously adopted the plan of conversion on March 31, 2001. Under the terms of the plan of conversion, on the effective date of the demutualization, which is the date of the closing of this offering, Principal Mutual Holding Company will convert from a mutual insurance holding company into a stock company and become our wholly-owned subsidiary.

The demutualization will become effective on the date of the closing of this offering. The plan of conversion provides that the effective date will occur after the approval by the Insurance Commissioner of the State of Iowa and the policyholders entitled to vote on the plan of conversion, but on or before 12 months after the date on which the Insurance Commissioner of the State of Iowa approves the plan of conversion. With the approval of the Insurance Commissioner of the State of Iowa, the effective date deadline may be extended.

We estimate that costs relating to the demutualization, excluding costs relating to this offering, will be approximately $23.5 million, net of tax, of which $11.1 million was incurred through March 31, 2001. Demutualization expenses consist primarily of printing and mailing costs and our aggregate cost of engaging independent accounting, actuarial, financial, investment banking, legal and other consultants to advise us on the demutualization. In addition, our costs include the costs of the staff and advisors of the Insurance Commissioner of the State of Iowa, the New York State Insurance Department and potentially other regulatory authorities as to the demutualization process and related matters.

RESULTS OF OPERATIONS

The table below presents summary consolidated financial information for the periods indicated.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
INCOME STATEMENT DATA:					
Revenues:					
Premiums and other considerations	$1,064.2	$1,014.4	$3,996.4	$3,937.6	$3,818.4
Fees and other revenues	413.0	396.4	1,576.3	1,287.3	978.8
Net investment income	839.7	789.5	3,172.3	3,072.0	2,933.9
Net realized capital gains (losses)	(80.9)	70.3	139.9	404.5	465.8
Total revenues	2,236.0	2,270.6	8,884.9	8,701.4	8,196.9
Expenses:					
Benefits, claims and settlement expenses	1,391.9	1,319.6	5,232.3	5,260.9	5,089.0
Dividends to policyholders	81.0	75.4	312.7	304.6	298.7
Operating expenses	622.7	593.2	2,479.4	2,070.3	2,074.0
Total expenses	2,095.6	1,988.2	8,024.4	7,635.8	7,461.7
Income before income taxes and cumulative effect of accounting change	140.4	282.4	860.5	1,065.6	735.2
Income taxes	24.4	89.3	240.3	323.5	42.2
Income before cumulative effect of accounting change	116.0	193.1	620.2	742.1	693.0
Cumulative effect of accounting change, net of related income taxes	(10.7)	--	--	--	--
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0
OTHER DATA:					
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0
Less:					
Net realized capital gains (losses), as adjusted	(47.9)	49.8	93.1	266.9	320.7
Non-recurring items	(20.5)	--	(101.0)	--	104.8
Operating earnings	$ 173.7	$ 143.3	$ 628.1	$ 475.2	$ 267.5
Operating earnings before amortization of goodwill and other intangibles	$ 186.6	$ 153.1	$ 670.8	$ 492.0	$ 304.0

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Premiums and other considerations increased $49.8 million, or 5%, to $1,064.2 million for the three months ended March 31, 2001, from $1,014.4 million for the three months ended March 31, 2000. The increase reflected a $136.1 million increase from the U.S. Asset Management and Accumulation segment, primarily due to an increase in premiums from single premium group annuities with life contingencies, which are typically used to fund defined benefit pension plan terminations. The premium income we receive from these contracts fluctuates due to the variability in the number and size of pension plan terminations in the market and our ability to attract new sales. The increase was partially offset by a $73.7 million, or 9%, decrease from the Life and Health Insurance segment, primarily related to our decision to reinsure 100% of our group Medicare supplement insurance business effective July 1, 2000. Life and Health Insurance segment premiums also decreased due to large premium rate increases in 2000, which led to high lapses and low sales of group medical insurance. The increase was also partially offset by a $12.5 million, or 21%, decrease from the International Asset Management and Accumulation segment, primarily related to the loss of premiums and other considerations due to the February 2001 divestiture of our operations in Spain.

Fees and other revenues increased $16.6 million, or 4%, to $413.0 million for the three months ended March 31, 2001, from $396.4 million for the three months ended March 31, 2000. The increase was primarily due to a $23.0 million, or 23%, increase from the Mortgage Banking segment, primarily resulting from an increase in mortgage loan production fee revenues reflecting the increase in mortgage loan production volume. The increase was also due to a $15.1 million, or 30%, increase from the Life and Health Insurance segment, primarily related to growth in our interest-sensitive life insurance block of business and increased fee revenues due to fee rate increases in our group fee-for-service and group medical insurance businesses. The increases were partially offset by a $9.3 million, or 5%, decrease from the U.S. Asset Management and Accumulation segment, primarily due to a decrease in surrender charge revenues from pension products, reflecting the decreasing interest rate environment. The increases were also partially offset by a $8.8 million decrease from the Corporate and Other segment, primarily related to a change in inter-segment

eliminations included in this segment. The increases were partially offset by a $3.4 million, or 5%, decrease from the International Asset Management and Accumulation segment primarily as a result of the weakening of the Australian dollar versus the U.S. dollar.

Net investment income increased $50.2 million, or 6%, to $839.7 million for the three months ended March 31, 2001, from $789.5 million for the three months ended March 31, 2000. The increase was primarily due to a $1,827.2 million, or 4%, increase in average invested assets and cash and was also due to an increase in investment yields due to higher yields on fixed income securities. The yield on average invested assets and cash was 7.7% for the three months ended March 31, 2001, compared to 7.5% for the three months ended March 31, 2000.

Net realized capital gains (losses) decreased $151.2 million to $80.9 million of net realized capital losses for the three months ended March 31, 2001, from $70.3 million of net realized capital gains for the three months ended March 31, 2000. The decrease primarily related to the sale of our investment in United Payors and United Providers. During the three months ended March 31, 2000, we sold our investment and realized a capital gain of $90.6 million. During the three months ended March 31, 2001, we realized capital losses on sales of equity securities, a result of the decline in the equity markets, the sale of our operations in Spain, and permanent impairments of fixed maturity securities.

Benefits, claims and settlement expenses increased $72.3 million, or 5%, to $1,391.9 million for the three months ended March 31, 2001, from $1,319.6 million for the three months ended March 31, 2000. The increase was primarily due to a $135.4 million, or 24%, increase from the U.S. Asset Management and Accumulation segment, primarily due to the increase in reserves from sales of single premium group annuities with life contingencies. The increase was partially offset by a $52.8 million, or 8%, decrease from the Life and Health Insurance segment, primarily related to our decision to reinsure 100% of our group Medicare supplement insurance business effective July 1, 2000. The increase was also partially offset by a $10.1 million, or 15%, decrease from the International Asset Management and Accumulation segment, primarily related to the loss of benefits, claims and settlement expenses resulting from the divestiture of our operations in Spain.

Dividends to policyholders increased $5.6 million, or 7%, to $81.0 million for the three months ended March 31, 2001, from $75.4 million for the three months ended March 31, 2000. The increase was primarily attributable to a $3.5 million, or 5%, increase from the Life and Health Insurance segment due to increased dividends on traditional individual life insurance products, a result of increases in the cash values of the policies. The increase was also due to a $2.1 million increase from the U.S. Asset Management and Accumulation segment resulting from an increase in dividends for our pension full-service accumulation products.

Operating expenses increased $29.5 million, or 5%, to $622.7 million for the three months ended March 31, 2001, from $593.2 million for the three months ended March 31, 2000. The increase was primarily due to a $19.5 million, or 10%, increase from the U.S. Asset Management and Accumulation segment, primarily resulting from an increase in amortization of deferred policy acquisition costs attributable to pension products. The increase also reflected a $12.9 million, or 18%, increase from the Mortgage Banking segment, primarily due to mortgage loan production expenses, reflecting the increase in mortgage loan production volume. In addition, the increase was due to a $3.1 million, or 21%, increase from the Corporate and Other segment, primarily related to a non-recurring loss contingency reserve established for litigation sales practices and demutualization costs. The increase was also due to a $2.7 million, or 3%, increase from the International Asset Management and Accumulation segment, primarily related to an increase in amortization of goodwill and other intangibles. The increases were partially offset by an $8.7 million, or 4%, decrease from the Life and Health Insurance segment, primarily a result of a decrease in commissions resulting from our decision to reinsure 100% of our group Medicare supplement insurance business effective July 1, 2000.

Income taxes decreased $64.9 million, or 73%, to $24.4 million for the three months ended March 31, 2001, from $89.3 million for the three months ended March 31, 2000. The effective income tax rate was 17% for the three months ended March 31, 2001 and 32% for the three months ended March 31, 2000. The effective rates for the three months ended March 31, 2001 and 2000 were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received, for which the estimated benefit recognition rate increased during the three months ended March 31, 2001 compared to the three months ended March 31, 2000, as a result of favorable tax developments. The effective tax rate for the three months ended March 31, 2001 was further reduced by additional tax benefits related to excess tax over book capital losses realized from the sale of our operations in Spain.

As a result of foregoing factors and the inclusion of the cumulative effect of accounting change, net of related income taxes, net income decreased $87.8 million, or 45%, to $105.3 million for the three months ended March 31, 2001, from $193.1 million for the three months ended March 31, 2000. The cumulative effect of accounting change related to our implementation of SFAS 133, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items."

During the three months ended March 31, 2001, non-recurring items of $20.5 million, net of tax, included the negative effects of: (1) a cumulative effect of change in accounting principle related to our implementation of SFAS 133 ($10.7 million); (2) a loss contingency reserve established for sales practices litigation ($5.9 million); and (3) expenses related to our demutualization ($3.9 million).

As a result of the foregoing factors and the exclusion of net realized capital gains, as adjusted and non-recurring items, operating earnings increased $30.4 million, or 21%, to $173.7 million for the three months ended March 31, 2001, from $143.3 million for the three months ended March 31, 2000. The increase resulted from a $19.3 million increase from the Corporate and Other segment, primarily due to improved investment yields. The increase was also due to a $5.9 million, or 33%, increase from the Mortgage Banking segment, primarily due to an increase in mortgage loan production earnings, reflecting an increase in mortgage loan production volume. In addition, the increase was due to a $5.9 million, or 16%, increase from the Life and Health Insurance segment due to improved margins on individual life insurance business resulting from higher investment yields and due to improved loss ratios on group life insurance business. Also contributing to the increase was a $0.1 million increase from the U.S. Asset Management and Accumulation segment due to improved investment yields and growth from our pension investment-only block of business. These increases were partially offset by a $0.8 million, or 18%, decrease from the International Asset Management and Accumulation segment.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Premiums and other considerations increased $58.8 million, or 1%, to $3,996.4 million in 2000, from $3,937.6 million in 1999. The increase reflected a $59.9 million, or 2%, increase from the Life and Heath Insurance segment, primarily the result of increased sales of group dental insurance products and an increase in group medical premiums, primarily attributable to increased sales in 1999 and significant group medical premium rate increases. In addition, the increase was due to a $40.6 million, or 23%, increase from the International Asset Management and Accumulation segment, primarily related to sales of single premium annuities with life contingencies by new annuity companies we established in Mexico in July 1999 and in Argentina in August 1999. The increases were partially offset by a $41.3 million, or 7%, decrease from the U.S. Asset Management and Accumulation segment, primarily related to a decrease in premiums from single premium group annuities with life contingencies, which are typically used to fund defined benefit pension plan terminations. The premium income we receive from these contracts fluctuates due to the variability in the number and size of defined benefit pension plan terminations in the market and our ability to attract new sales.

Fees and other revenues increased $289.0 million, or 22%, to $1,576.3 million in 2000, from $1,287.3 million in 1999. The increase was primarily due to a $199.6 million increase from the International Asset Management and Accumulation segment, primarily resulting from the inclusion of fees and other revenues contributed by BT Financial Group, which we acquired in August 1999. The increase was also due to a $90.3 million, or 15%, increase from the U.S. Asset Management and Accumulation segment, primarily attributable to an increase in administrative fee revenues, reflecting an increase in the amortization of front-end fee revenues, a result of a change in our assumptions related to amortization of deferred policy acquisition costs attributable to pension products. We also received higher fee revenues related to surrender charges, which are fees charged to policyholders when they surrender an annuity for its cash value. Fee revenues also increased due to fees from pension customer-directed investment transfers, reflecting the higher interest rate environment and the resulting increased customer account activity. Fee revenues for U.S. pension products and services also increased, reflecting increased assets under management in 1999. The increase was also due to a $49.8 million, or 28%, increase from the Life and Health Insurance segment, primarily related to growth in our interest-sensitive life insurance block of business and increased fee revenues from our group fee-for-service business, primarily a result of an increase in members and fees. The increases were partially offset by a $31.2 million decrease from the Corporate and Other segment, which reflects a change in inter-segment eliminations included in this segment and the termination of a reinsurance and participation agreement under which we received fee revenues in 1999, but not in 2000. The increases were also partially offset by a $19.5 million, or 5%, decrease from the Mortgage Banking segment, primarily due to a decrease in residential mortgage loan production revenues as a result of the decrease in residential mortgage loan production volume during 2000.

Net investment income increased $100.3 million, or 3%, to $3,172.3 million in 2000, from $3,072.0 million in 1999. The increase was primarily due to an increase in investment yields due to higher interest rates on new investments. The yield on average invested assets and cash was 7.5% in 2000, compared to 7.4% in 1999. The increase was also due to a $934.8 million, or 2%, increase in average invested assets and cash.

Net realized capital gains decreased $264.6 million, or 65%, to $139.9 million in 2000, from $404.5 million in 1999. The decrease was due in part to a decrease in sales of invested assets, primarily equity securities, in 2000. In 1999, we sold a significant portion of our equity securities portfolio to reduce exposure to common stock and to realize appreciation. We also recognized an increase in net realized capital losses in 2000, compared to 1999, in our fixed income securities portfolio, reflecting our investment philosophy to reposition the investment portfolio to maximize investment returns by selling lower yielding fixed income securities to allow for reinvestment in higher yielding fixed income securities. In 1999, we sold a portion of our investment in United Payors and United Providers, a publicly traded service organization that acts as an intermediary between health care payors and health care providers, realizing a capital gain of $27.6 million. In 2000, we sold our remaining investment and realized a capital gain of $90.6 million.

Benefits, claims and settlement expenses decreased $28.6 million, or 1%, to $5,232.3 million in 2000, from $5,260.9 million in 1999. The decrease was primarily due to a $55.5 million, or 2%, decrease from the Life and Health Insurance segment, primarily resulting from the release of group medical and group Medicare supplement claim

reserves established in 1999. The claim reserves were established in 1999 as a result of poor claim experience during the first three quarters of 1999 and an expectation that claims would continue to increase through the second quarter of 2000. Group Medicare supplement benefits, claims and settlement expenses also decreased as a result of our decision to cease new sales of group Medicare supplement insurance effective January 1, 2000 and our decision to reinsure all existing business as of July 1, 2000. In addition, the decrease was related to a $24.7 million, or 1%, decrease from the U.S. Asset Management and Accumulation segment primarily resulting from a decrease in benefit payments and reserve changes reflecting the decrease in our block of pension experience rated business and an increase in our guaranteed business. The decreases were partially offset by a $52.1 million, or 25%, increase from the International Asset Management and Accumulation segment, primarily due to an increase in the change in reserves and policy and contract benefit payments, primarily related to additional sales of annuity products with life contingencies in Mexico, Argentina and Chile.

Dividends to policyholders increased $8.1 million, or 3%, to $312.7 million in 2000, from $304.6 million in 1999. The increase was primarily attributable to a $12.5 million, or 4%, increase from the Life and Health Insurance segment due to increased dividends on traditional individual life insurance products, a result of increases in the cash values of the policies. The increase was partially offset by a $4.4 million, or 49%, decrease in dividends from the U.S. Asset Management and Accumulation segment, which reflected a decrease in our block of pension experience rated business.

Operating expenses increased $409.1 million, or 20%, to $2,479.4 million in 2000, from $2,070.3 million in 1999. The increase was primarily due to a $160.2 million, or 76%, increase from the International Asset Management and Accumulation segment, primarily resulting from the inclusion of BT Financial Group in our financial results effective August 1999, including a $23.3 million increase amortization of goodwill and other intangibles. The increase also reflected a $121.5 million, or 20%, increase from the U.S. Asset Management and Accumulation segment, primarily due to a change in our assumptions related to amortization of deferred policy acquisition costs related to pension products and also due to an increase in pension salary and incentive compensation costs and other pension administrative expenses. In addition, the increase was due to a $116.0 million increase from the Corporate and Other segment, primarily related to a non-recurring loss contingency reserve established for sales practices litigation and demutualization costs as well as additional interest costs related to private debt securities and commercial paper issued in connection with our acquisition of BT Financial Group. The increase was also due to a $39.5 million, or 5%, increase from the Life and Health Insurance segment, primarily due to expenses related to our group Medicare supplement business and higher group medical commissions. The increases were partially offset by a $28.1 million, or 9%, decrease from the Mortgage Banking segment, primarily a result of net gains we earned on hedges related to our servicing portfolio in 2000.

Income taxes decreased $83.2 million, or 26%, to $240.3 million in 2000, from $323.5 million in 1999. The effective income tax rate was 28% in 2000 and 30% in 1999. The effective rates for 2000 and 1999 were lower than the corporate income tax rate of 35%, primarily due to income tax deductions allowed for corporate dividends received.

As a result of the foregoing factors, net income decreased $121.9 million, or 16%, to $620.2 million in 2000, from $742.1 million in 1999.

In 2000, non-recurring items of $101.0 million, net of tax, included the negative effects of (1) a loss contingency reserve established for sales practices litigation ($93.8 million); and (2) expenses related to our demutualization study ($7.2 million).

Operating earnings increased $152.9 million, or 32%, to $628.1 million in 2000, from $475.2 million in 1999. The increase resulted from a $71.6 million, or 79%, increase from the Life and Health Insurance segment, primarily due to improved earnings from our group medical business. The increase was also due to a $58.2 million increase from the Corporate and Other segment, primarily due to improved investment yields and lower expenses due in part to a net recovery of interest expense related to a successful tax audit appeal. In addition, the increase was due to a $29.9 million, or 78%, increase from the International Asset Management and Accumulation segment due to growth in our international operations, due in part to BT Financial Group, which we acquired in August 1999. Operating earnings from the U.S. Asset Management and Accumulation did not change as increases in revenues were offset by increases in expenses. These increases were partially offset by a $6.8 million, or 12%, decrease from the Mortgage Banking segment, primarily due to a decrease in mortgage loan production earnings, reflecting a decrease in production volume.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Premiums and other considerations increased $119.2 million, or 3%, to $3,937.6 million in 1999, from $3,818.4 million in 1998. The increase was primarily due to a $285.0 million, or 101%, increase from the U.S. Asset Management and Accumulation segment, due to increased sales of single premium group annuities with life contingencies. The premium income we receive from these contracts fluctuates due to the variability in the number and size of pension plan terminations in the market and our ability to attract new sales. The increase was also due to a $64.0 million, or 2%, increase from the Life and Health Insurance segment, primarily due to growth in our dental insurance business, and an increase in premiums and other considerations for group Medicare supplement insurance

and group medical insurance, a result of more competitive pricing and new sales incentives. The increase was also due to a $32.8 million, or 22%, increase from the International Asset Management and Accumulation segment, primarily related to the addition of premiums from El Roble, a Chilean life insurance company we acquired in July 1998, sales of single premium annuities with life contingencies, related primarily to our newly formed annuity company in Mexico, and sales of single premium group annuities with life contingencies in Spain. The increases were partially offset by a $262.6 million decrease from the Corporate and Other segment, primarily related to our HMO operations, which contributed premiums and other considerations through March 31, 1998, prior to being transferred to Coventry.

Fees and other revenues increased $308.5 million, or 32%, to $1,287.3 million in 1999, from $978.8 million in 1998. The increase was primarily due to a $165.7 million, or 37%, increase from the U.S. Asset Management and Accumulation segment, primarily due to growth in assets under management, which benefited from strong equity market performance in 1999, an increase in net deposits received from our pension customers and an increase in third-party asset management fee revenues. The increase in U.S. Asset Management and Accumulation segment fee revenues was related to the inclusion of asset management fee revenues of Principal Capital Management in this segment at the beginning of 1999. Such asset management fee revenues were reported in the Corporate and Other segment prior to 1999, leading to a $35.1 million decrease for the Corporate and Other segment. This change in reported segment did not have an impact on our consolidated financial results. The increase was also due to a $77.5 million increase from the International Asset Management and Accumulation segment, primarily related to the inclusion of fees and revenues contributed by BT Financial Group, which we acquired in August 1999. The increase was also due to a $66.9 million, or 20%, increase from the Mortgage Banking segment, primarily due to an increase in residential mortgage loan servicing revenues resulting from the increase in our residential mortgage loan servicing portfolio. The increase was also attributable to a $33.5 million, or 23%, increase from the Life and Health Insurance segment, primarily due to an increase in fee revenues from our group fee-for-service business, as we provided more clients with customized services that result in higher fees, and an increase in fee revenues due to increased sales of individual interest-sensitive life insurance products, a result of customer preference for universal life and variable life insurance products.

Net investment income increased $138.1 million, or 5%, to $3,072.0 million in 1999, from $2,933.9 million in 1998. The increase was primarily due to higher investment yields in 1999. The yield on average invested assets and cash was 7.4% in 1999, compared to 7.2% in 1998. The increase was also due to an $897.2 million, or 2%, increase in average invested assets. Our pro rata share of Coventry's net income increased $28.9 million, as a result of Coventry's improved earnings in 1999 compared to 1998. In addition, BT Financial Group contributed $18.3 million of net investment income in 1999.

Net realized capital gains, as adjusted, decreased $61.3 million, or 13%, to $404.5 million in 1999, from $465.8 million in 1998. Our net realized capital gains reflect significant sales activity in both 1999 and 1998. We continued to reposition the investment portfolio to maximize operating investment returns by selling lower yielding invested assets and reinvesting in higher yielding investments. In addition, we sold a significant portion of our equity securities portfolio in 1999 and 1998 to reduce our exposure to common stock and to realize appreciation in value. Additionally, we reduced our investments in real estate in 1999 and 1998 to reduce our exposure to this asset class. We actively managed our portfolio of residential mortgage-backed securities to ensure that the securities we held traded close to or below par to manage prepayment risk. These activities resulted in the realization of capital gains and losses.

Benefits, claims and settlement expenses increased $171.9 million, or 3%, to $5,260.9 million in 1999, from $5,089.0 million in 1998. The increase was primarily due to a $288.2 million, or 14%, increase from the U.S. Asset Management and Accumulation segment, related primarily to a larger block of single premium group annuities with life contingencies. The increase was also due to a $109.6 million, or 4%, increase from the Life and Health Insurance segment, reflecting an increase in group medical and group Medicare supplement benefits. This increase was also due to reserve changes in 1999, which were primarily due to claim reserves established as a result of poor claim experience during the first three quarters of 1999 and an expectation that claims would continue to increase through the second quarter of 2000. The increase was also due to a $44.9 million, or 27%, increase from the International Asset Management and Accumulation segment, primarily attributable to the addition of benefits, claims and settlement expenses from El Roble, which we acquired in July 1998, and an increase in the change in reserves due to sales of single premium group annuities with life contingencies in Spain and Mexico. The increases were partially offset by a $270.8 million decrease from the Corporate and Other segment, primarily related to our HMO operations, which generated benefits, claims and settlement expenses in 1998, prior to being transferred to Coventry.

Dividends to policyholders increased $5.9 million, or 2%, to $304.6 million in 1999, from $298.7 million in 1998. The increase was due to a $10.3 million increase from the U.S. Asset Management and Accumulation segment, a reflection of lower dividends in 1998, as several large group annuity contracts renewed in the form of non-participating contracts in 1998. The increase was partially offset by a $4.4 million, or 1%, decrease from the Life and Health Insurance segment, primarily related to a decrease in group life and health insurance dividends when compared to 1998. After July 1, 1998, new issues and renewals of group life and health contracts were in the form of non-participating policies. These policies included experience refund provisions that were reported as reductions of premiums in 1999, instead of as dividends to policyholders. The change in presentation did not affect net income. The Life and Health Insurance

segment dividend decrease was partially offset by an increase in individual traditional life insurance dividends due to increases in the cash values of policies and in the interest rates credited to the policies.

Operating expenses decreased $3.7 million to $2,070.3 million in 1999, from $2,074.0 million in 1998. The decrease was primarily due to a $198.0 million, or 79%, decrease from the Corporate and Other segment, primarily due to our HMO operations which generated operating expenses in 1998, prior to the transfer of those operations to Coventry. The decrease was also attributable to a $29.0 million, or 3%, decrease from the Life and Health Insurance segment, primarily related to a decrease in amortization of deferred policy acquisition costs for individual life and disability insurance in 1999, compared to 1998. Amortization was higher in 1998 due to loss recognition on older blocks of business. The decreases were partially offset by a $120.1 million increase from the International Asset Management and Accumulation segment, primarily due to the addition of BT Financial Group in August 1999. BT Financial Group's operating expenses included $13.7 million of amortization of goodwill and other intangibles. The decreases were also partially offset by a $60.6 million, or 24%, increase from the Mortgage Banking segment, primarily due to an increase in amortization of residential mortgage loan servicing rights, a result of the increase in the residential mortgage loan servicing portfolio. The decreases were also partially offset by a $42.6 million, or 7%, increase from the U.S. Asset Management and Accumulation segment, primarily related to Principal Capital Management, which was included in this segment at the beginning of 1999.

Income taxes increased $281.3 million to $323.5 million in 1999, from $42.2 million in 1998. The effective income tax rate was 30% in 1999 and 6% in 1998, compared to the U.S. corporate income tax rate of 35%. The effective income tax rate was lower than the corporate income tax rate in 1999, primarily due to tax exempt income. The rate was also reduced due to higher deferred taxes related to health reserves in 1998, the effects of which were reversed in 1999. The effective income tax rate was lower than the corporate income tax rate of 35% in 1998, primarily due to Principal Life's release of a tax reserve, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items," and related accrued interest in the amount of $164.4 million, consisting of $145.4 million in taxes and $19.0 million of interest.

As a result of the foregoing factors, net income increased $49.1 million, or 7%, to $742.1 million in 1999, from $693.0 million in 1998.

In 1998, non-recurring items of $104.8 million, net of tax, included: the positive effects of (1) a favorable settlement of a contingent tax matter ($164.4 million), see "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items," and (2) accounting changes by our international operations ($13.3 million); and the negative effects of (1) expenses related to our corporate structure change to a mutual insurance holding company and related adjustments for changes in amortization assumptions for deferred policy acquisition costs ($27.4 million) and (2) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

Operating earnings increased $207.7 million, or 78%, to $475.2 million in 1999, from $267.5 million in 1998. The increase resulted from a $118.2 million, or 50%, increase from the U.S. Asset Management and Accumulation segment primarily resulting from growth in our pension full service accumulation business. The increase was also due to a $53.8 million increase from the Corporate and Other segment, primarily due to the absence of losses from our HMO operations in 1999, a result of the transfer of our HMO operations to Coventry in 1998. In addition, the increase was due to a $40.7 million, or 81%, increase from the Life and Health Insurance segment, primarily due to increased earnings from our individual life insurance business and, to a lesser extent, increases in earnings from our group disability insurance business. These increases were partially offset by a $3.0 million, or 8%, decrease from the International Asset Management and Accumulation segment, primarily attributable to an increase in operating expenses related to BT Financial Group, which we acquired in August 1999. These increases were also partially offset by a $2.0 million, or 3%, decrease from the Mortgage Banking segment.

RESULTS OF OPERATIONS BY SEGMENT

We evaluate segment performance by segment operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and non-recurring events and transactions. Segment operating earnings is determined by adjusting GAAP net income for net realized capital gains and losses, as adjusted, and non-recurring items that we believe are not indicative of overall operating trends. While these items may be significant components in understanding and assessing our consolidated financial performance, we believe the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, recurring operations of our businesses. However, segment operating earnings are not a substitute for net income determined in accordance with GAAP.

The following table presents segment information as of or for the three months ended March 31, 2001 and 2000 and as of or for each of the years ended December 31, 2000, 1999 and 1998:

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING REVENUES BY SEGMENT:					
U.S. Asset Management and Accumulation(2)	$ 1,015.7	$ 868.3	$ 3,533.9	$ 3,472.6	$ 2,933.1
International Asset Management and Accumulation	144.4	157.4	630.7	379.6	223.1
Life and Health Insurance	1,002.4	1,047.4	4,122.6	3,985.5	3,893.1
Mortgage Banking	119.6	97.7	359.8	398.3	340.6
Corporate and Other(1)(2)	35.0	29.0	97.1	61.9	342.5
Total operating revenues	2,317.1	2,199.8	8,744.1	8,297.9	7,732.4
Net realized capital gains, including recognition of front-end fee revenues(3)	(81.1)	70.8	140.8	403.5	464.5
Total consolidated revenues	$ 2,236.0	$ 2,270.6	$ 8,884.9	$ 8,701.4	$ 8,196.9
OPERATING EARNINGS (LOSS) BY SEGMENT:					
U.S. Asset Management and Accumulation	$ 88.8	$ 88.7	$ 356.6	$ 356.6	$ 238.4
International Asset Management and Accumulation	(5.3)	(4.5)	(8.5)	(38.4)	(35.4)
Life and Health Insurance	42.5	36.6	162.3	90.7	50.0
Mortgage Banking	23.9	18.0	50.0	56.8	58.8
Corporate and Other	23.8	4.5	67.7	9.5	(44.3)
Total operating earnings	173.7	143.3	628.1	475.2	267.5
Net realized capital gains (losses), as adjusted(3)	(47.9)	49.8	93.1	266.9	320.7
Non-recurring items(4)	(20.5)	--	(101.0)	--	104.8
GAAP REPORTED:					
Net income	$ 105.3	$ 193.1	$ 620.2	$ 742.1	$ 693.0
TOTAL ASSETS BY SEGMENT:					
U.S. Asset Management and Accumulation	$64,144.6	$66,312.3	$65,795.9	$65,096.4	$58,701.5
International Asset Management and Accumulation	4,928.1	5,550.8	5,525.9	5,926.8	1,239.4
Life and Health Insurance	10,406.6	10,080.9	10,421.1	9,949.8	9,116.1
Mortgage Banking	1,915.2	1,793.9	1,556.3	1,737.7	1,810.4
Corporate and Other(5)	1,017.9	1,064.9	957.8	1,121.5	3,075.9
Total assets	$82,412.4	$84,802.8	$84,257.0	$83,832.2	$73,943.3

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(1) Includes inter-segment eliminations primarily related to real estate joint venture rental income and internal investment management fee revenues. The Corporate and Other segment reported rental income from real estate joint ventures for office space used by other segments.

(2) The U.S. Asset Management and Accumulation segment received fee revenues for performing investment management services for other segments in 2001, 2000 and 1999. The Corporate and Other segment received fee revenues for performing investment management services for other segments prior to 1999.

(3) Net realized capital gains, as adjusted, are net of tax, related changes in the amortization pattern of deferred policy acquisition costs, recognition of front-end fee revenues for sales charges on pension products and services and net realized capital gains credited to customers. This presentation may not be comparable to presentations made by other companies.

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
Net realized capital gains (losses)	$(80.9)	$ 70.3	$139.9	$ 404.5	$ 465.8
Recognition of front-end fee revenues	(0.2)	0.5	0.9	(1.0)	(1.3)
Net realized capital gains (losses), including recognition of front-end fee revenues	(81.1)	70.8	140.8	403.5	464.5
Amortization of deferred policy acquisition costs related to net realized capital gains (losses)	1.0	0.2	(0.3)	4.4	5.7
Amounts credited to contractholder accounts	--	--	--	--	(26.3)
Non-recurring net realized capital gains (losses)	--	--	--	--	(1.7)
Net realized capital gains (losses), including recognition of front-end fee revenues, net of related amortization of deferred policy acquisition costs and amounts credited to contractholders	(80.1)	71.0	140.5	407.9	442.2
Income tax effect	32.2	(21.2)	(47.4)	(141.0)	(121.5)
Net realized capital gains (losses), as adjusted	$(47.9)	$ 49.8	$ 93.1	$ 266.9	$ 320.7

(4) For the three months ended March 31, 2001, non-recurring items of $20.5 million, net of tax, included the negative effects of: (1) a cumulative effect of change in accounting principle related to our implementation of SFAS 133 ($10.7 million); (2) a loss contingency reserve established for sales practices litigation ($5.9 million); and (3) expenses related to our demutualization ($3.9 million). For the three months ended March 31, 2000, we did not exclude non-recurring items from net income for our presentation of operating earnings. For the year ended December 31, 2000, non-recurring items of $101.0 million, net of tax, included the negative effects of: (1) a loss contingency reserve established for sales practices litigation ($93.8 million); and (2) expenses related to our demutualization study ($7.2 million). For the year ended December 31, 1998, non-recurring items of $104.8 million, net of tax, included: the positive effects of (1) a favorable settlement of a contingent tax matter ($164.4 million), see "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items," and (2) accounting changes by our international operations ($13.3 million); and the negative effects of (1) expenses related to our corporate structure change to a mutual insurance holding company and related adjustments for changes in amortization assumptions for deferred policy acquisition costs ($27.4 million) and (2) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

(5) Includes inter-segment elimination amounts related to internally generated mortgage loans and an internal line of credit. The U.S. Asset Management and Accumulation segment and Life and Health Insurance segment reported mortgage loan assets issued for real estate joint ventures. These mortgage loans were reported as liabilities in the Corporate and Other segment. In addition, the Corporate and Other segment managed a revolving line of credit used by other segments.

U.S. ASSET MANAGEMENT AND ACCUMULATION SEGMENT

The table below presents certain summary financial data relating to the U.S. Asset Management and Accumulation segment for the periods indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING EARNINGS DATA:					
Operating revenues(1):					
Premiums and other considerations	$ 249.5	$113.4	$ 525.4	$ 566.7	$ 281.7
Fees and other revenues	168.5	177.1	704.6	616.2	450.8
Net investment income	597.7	577.8	2,303.9	2,289.7	2,200.6
Total operating revenues	1,015.7	868.3	3,533.9	3,472.6	2,933.1
Expenses:					
Benefits, claims and settlement expenses, including dividends to policyholders	692.2	554.7	2,315.2	2,344.3	2,019.5
Operating expenses	214.2	193.5	740.9	626.3	592.3
Total expenses	906.4	748.2	3,056.1	2,970.6	2,611.8
Pre-tax operating earnings	109.3	120.1	477.8	502.0	321.3
Income taxes	20.5	31.4	121.2	145.4	82.9
Operating earnings	88.8	88.7	356.6	356.6	238.4
Net realized capital gains (losses), as adjusted	(7.4)	(18.8)	(35.9)	(35.4)	14.7
Non-recurring items	(10.8)	--	--	--	23.9
GAAP REPORTED:					
Net income	$ 70.6	$ 69.9	$ 320.7	$ 321.2	$ 277.0

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(1) Excludes net realized capital gains (losses) and their impact on recognition of front-end fee revenues.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Premiums and other considerations increased $136.1 million to $249.5 million for the three months ended March 31, 2001, from $113.4 million for the three months ended March 31, 2000. The increase was primarily due to a $137.3 million increase in premiums from single premium group annuities with life contingencies, which are typically used to fund defined benefit pension plan terminations. The premium income we receive from these contracts fluctuates due to the variability in the number and size of pension plan terminations in the market and our ability to attract new sales. This increase was partially offset by a $1.3 million decrease related to decreased sales of our single premium individual annuities with life contingencies.

Fees and other revenues decreased $8.6 million, or 5%, to $168.5 million for the three months ended March 31, 2001, from $177.1 million for the three months ended March 31, 2000. The decrease was primarily related to a $14.7 million decrease in surrender charge revenues from pension products, reflecting the decreasing interest rate environment. Additionally, a decrease of $4.7 million was primarily due to a change in intra-segment eliminations. These decreases were partially offset by an increase of $10.4 million in fees and other revenues related to Principal Capital Management, primarily the result of revenues attributable to real estate securitizations.

Net investment income increased $19.9 million, or 3%, to $597.7 million for the three months ended March 31, 2001, from $577.8 million for the three months ended March 31, 2000. The increase was primarily due to a $1,983.9 million, or 6%, increase in average invested assets and cash for the segment. The yield on average invested assets and cash was 7.3% for the three months ended March 31, 2001, compared to 7.5% for the three months ended March 31, 2000, reflecting an increase in cash and cash equivalents, which earns lower yields than invested assets.

Benefits, claims and settlement expenses, including dividends to policyholders, increased $137.5 million, or 25%, to $692.2 million for the three months ended March 31, 2001, from $554.7 million for the three months ended March 31, 2000. An increase of $140.9 million from our pension full-service payout business primarily reflected the increase in reserves from sales of single premium group annuities with life contingencies and an increase in dividends. A $7.8 million increase related to our pension investment-only business was primarily due to an increase in interest credited due to the growth in our investment-only business. An additional $2.5 million increase was primarily related to an increase in interest credited in our individual annuity business, resulting from customers electing the fixed annuity

options of their variable annuity product. Partially offsetting these increases was a $13.8 million decrease in our pension full-service accumulation business reflecting a decrease in interest credited, primarily a result of a decrease in average crediting rates.

Operating expenses increased $20.7 million, or 11%, to $214.2 million for the three months ended March 31, 2001, from $193.5 million for the three months ended March 31, 2000. An increase of $15.9 million related to our pension business was primarily due to an increase in amortization of deferred policy acquisition costs. An increase of $6.7 million for Principal Bank was primarily related to growth in bank operations. Additionally, an increase of $3.8 million in operating expenses related to Principal Capital Management, was primarily the result of an increase in compensation costs resulting from growth in operations. These increases were partially offset by a $6.0 million decrease resulting from a change in intra-segment eliminations.

Income taxes decreased $10.9 million, or 35%, to $20.5 million for the three months ended March 31, 2001, from $31.4 million for the three months ended March 31, 2000. The effective income tax rate for this segment was 19% for the three months ended March 31, 2001, and 26% for the three months ended March 31, 2000. The effective income tax rates for the three months ended March 31, 2001 and 2000 were lower than the corporate income tax rate of 35%, primarily due to income tax deductions allowed for corporate dividends received, for which the estimated benefit recognition rate increased during the three months ended March 31, 2001 compared to the three months ended March 31, 2000, as a result of favorable tax developments, and other tax-exempt income.

As a result of the foregoing factors, operating earnings increased $0.1 million to $88.8 million for the three months ended March 31, 2001, from $88.7 million for the three months ended March 31, 2000.

Net realized capital losses, as adjusted, decreased $11.4 million, or 61%, to $7.4 million for the three months ended March 31, 2001, from $18.8 million for the three months ended March 31, 2000. The decrease was primarily due to the positive effects of a change in the mortgage loan valuation allowance, primarily reflecting the decrease in the amount invested in commercial mortgage loans. In addition, there was a decrease in losses related to sales of fixed maturities, reflecting a decrease in portfolio activity in 2001. These decreases were partially offset by losses due to permanent impairments of fixed maturity securities.

As a result of the foregoing factors and the inclusion of non-recurring items for the three months ended March 31, 2001, net income increased $0.7 million, or 1%, to $70.6 million for the three months ended March 31, 2001, from $69.9 million for the three months ended March 31, 2000. Non-recurring items for the three months ended March 31, 2001 had a negative impact on net income of $10.8 million, net of tax, due to the cumulative effect of accounting change, net of income taxes, related to our implementation of SFAS 133, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items."

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Premiums and other considerations decreased $41.3 million, or 7%, to $525.4 million in 2000, from $566.7 million in 1999. The decrease was primarily due to a $43.3 million decrease in premiums from single premium group annuities with life contingencies, which are typically used to fund defined benefit pension plan terminations. The premium income we receive from these contracts fluctuates due to the variability in the number and size of pension plan terminations in the market and our ability to attract new sales. This decrease was partially offset by a $2.0 million increase related to increased sales of our single premium individual annuities with life contingencies.

Fees and other revenues increased $88.4 million, or 14%, to $704.6 million in 2000, from $616.2 million in 1999. The increase was primarily related to a $74.2 million increase in administrative fee revenues for pension products and services. The increase in administrative fee revenues reflected an increase in the amortization of front-end fee revenues, a result of a change in our assumptions related to amortization of deferred policy acquisition costs attributable to pension products. We also received higher fee revenues from surrender charges and pension customer-directed investment transfers, reflecting the higher interest rate environment and increased customer account activity. The increase in fee revenues was also due in part to growth in assets under management related to our pension products in 1999. An increase of $13.0 million was primarily due to investment management fee revenues from our mutual fund business and commission fee revenues related to sales of third-party mutual funds. An increase of $5.6 million in individual annuity fees, primarily a result of growth in separate account assets related to individual annuity products, also contributed to the segment increase. The increase in fees and other revenues was partially offset by a $5.6 million decrease in fee revenues related to Principal Capital Management, primarily a result of a decrease in proceeds related to commercial mortgage-backed securitization transactions.

Net investment income increased $14.2 million, or 1%, to $2,303.9 million in 2000, from $2,289.7 million in 1999. The increase was primarily due to a $1,561.6 million, or 5%, increase in average invested assets and cash for the segment. The yield on average invested assets and cash was 7.3% in 2000, compared to 7.6% in 1999, due to a decrease in interest credited on assets backing allocated capital. The decrease in interest credited was partially offset by higher interest rates on fixed income investments backing product liabilities.

Benefits, claims and settlement expenses, including dividends to policyholders, decreased $29.1 million, or 1%, to $2,315.2 million in 2000, from $2,344.3 million in 1999. A decrease of $26.7 million in benefits and reserve

changes, and

a $4.5 million decrease in dividends to policyholders were both related to our full-service pension accumulation products, reflecting the decrease in our block of pension experience rated business and an increase in our guaranteed business. An additional $21.4 million decrease was attributable to decreased sales of single premium group annuities with life contingencies. Partially offsetting these decreases was a $19.5 million increase related to our investment-only business, primarily reflecting an increase in interest credited due to the growth in our investment-only business. An additional $3.8 million increase was primarily related to an increase in interest credited on individual fixed annuities and the fixed component of variable annuities, a result of higher interest crediting rates during 2000.

Operating expenses increased $114.6 million, or 18%, to $740.9 million in 2000, from $626.3 million in 1999. An increase of $57.3 million was primarily due to a change in our assumptions related to amortization of deferred policy acquisition costs attributable to pension products. An additional $28.7 million increase was primarily related to an increase in pension salary and incentive compensation costs and other pension administrative costs. Operating expenses also increased $9.7 million for our mutual fund business, primarily the result of increased sales of third-party mutual funds and also due to other mutual fund operating expenses. An $8.3 million increase in operating expenses related to our individual annuity business was primarily due to an increase in amortization of deferred policy acquisition costs. Additionally, a $6.5 million increase in operating expenses for Principal Capital Management was primarily related to an increase in incentive compensation costs.

Income taxes decreased $24.2 million, or 17%, to $121.2 million in 2000, from $145.4 million in 1999. The effective income tax rate for this segment was 25% in 2000, and 29% in 1999. The effective tax rates were lower than the corporate income tax rate of 35%, primarily due to income tax deductions allowed for corporate dividends received and other tax-exempt income.

As a result of the foregoing factors, operating earnings were $356.6 million in both 2000 and 1999.

Net realized capital losses, as adjusted, increased to $35.9 million in 2000, from $35.4 million in 1999. This segment recognized net realized capital losses consistent with our change in investment philosophy, which increased portfolio activity. We repositioned the investment portfolio to maximize operating investment returns by selling lower yielding fixed income securities to allow for reinvestment in higher yielding fixed income securities. This repositioning of the portfolio generated net realized capital losses.

As a result of the foregoing factors, net income decreased to $320.7 million in 2000, from $321.2 million in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Premiums and other considerations increased $285.0 million, or 101%, to $566.7 million in 1999 from $281.7 million in 1998. The increase was primarily due to a $279.9 million increase in premiums for single premium group annuities with life contingencies, which are typically used to fund defined benefit pension plan terminations. The premium income we receive from these contracts fluctuates due to the variability in the number and size of defined benefit pension plan terminations in the market and our ability to attract new sales. The increase in premiums and other considerations was also due to a $5.1 million increase related to increased sales of single premium individual annuities with life contingencies.

Fees and other revenues increased $165.4 million, or 37%, to $616.2 million in 1999, from $450.8 million in 1998. The increase was primarily contributed by our U.S. asset management operations, as we included Principal Capital Management in this segment at the beginning of 1999. Fees and other revenues contributed in 1999 by Principal Capital Management were $74.6 million. In addition, an increase of $71.8 million in fees and other revenues from our pension products contributed to the increase, as a result of growth in assets under management, which benefited from strong equity market performance in 1999 and an increase in net deposits received from customers, particularly in early 1999. The increase in fees and other revenues was also due to an $11.9 million increase in mutual fund fee revenues, primarily due to an increase in assets under management in our mutual fund business. The growth in assets under management related to our individual annuity products also contributed to a $6.9 million increase in fees and other revenues, which reflected the increase in new deposits related to individual variable annuity sales and strong market performance.

Net investment income increased $89.1 million, or 4%, to $2,289.7 million in 1999, from $2,200.6 million in 1998. The increase was primarily due to a $858.6 million, or 3%, increase in average invested assets and cash for the segment. The yield on average invested assets and cash was 7.6% in 1999 and 7.5% in 1998.

Benefits, claims and settlement expenses, including dividends to policyholders, increased $324.8 million, or 16%, to $2,344.3 million in 1999, from $2,019.5 million in 1998. An increase of $227.6 million was primarily due to a larger block of single premium group annuities with life contingencies. Additionally, the growth in our block of group annuities caused a $93.6 million increase in interest credited to guaranteed business. In addition, a $10.3 million increase in dividends to policyholders was a reflection of lower dividends in 1998, a result of several large group annuity contracts that renewed in the form of non-participating contracts in 1998. These increases were partially offset by a $9.9 million decrease, primarily due to a decrease in interest credited on individual annuities, the result of a smaller block of single

premium individual annuities with life contingencies reflecting terminations that exceeded new sales. The decrease in interest credited was also due to lower interest crediting rates in 1999 compared to 1998.

Operating expenses increased $34.0 million, or 6%, to $626.3 million in 1999, from $592.3 million in 1998. The increase was primarily due to higher operating expenses from our U.S. asset management operations, related to Principal Capital Management, which was included in this segment at the beginning of 1999. Operating expenses attributable to Principal Capital Management were $101.0 million. The increase was also due to a $7.4 million increase in operating expenses, primarily related to growth in our individual annuity business, reflected by increases in general expenses, taxes, licenses and fees and amortization of deferred policy acquisition costs. Additionally, we experienced a $2.9 million increase, primarily attributable to increased commissions and other general expenses related to our mutual fund business. The increases were partially offset by a $62.1 million decrease in operating expenses related to our pension products and services, which reflect higher expenses in 1998 related to the costs of implementing new retirement plan processing technology. In addition, a $16.6 million decrease was due to a write-down of goodwill in 1998, reflecting continued operating losses and significantly reduced cash flow forecasts of Trust Consultants, Inc., a pension administration subsidiary.

Income taxes increased $62.5 million, or 75%, to $145.4 million in 1999 from $82.9 million in 1998. The effective income tax rate for this segment was 29% in 1999 and 26% in 1998, compared to the U.S. corporate income tax rate of 35%. The effective income tax rate was lower than the corporate income tax rate in 1999 and 1998, due to tax exempt income related primarily to dividends received deductions. Although tax exempt income for the segment increased over 1998 levels, the increase in the effective tax rate for 1999 was due to the increase in taxable operating earnings for the segment.

As a result of the foregoing factors, operating earnings increased $118.2 million, or 50%, to $356.6 million in 1999, from $238.4 million in 1998.

Net realized capital gains, as adjusted, decreased $50.1 million to net realized capital losses of $35.4 million in 1999, from $14.7 million of net realized capital gains in 1998. This segment recognized net realized capital losses consistent with our change in investment philosophy, which increased portfolio activity. Specifically, we repositioned the investment portfolio to maximize operating investment returns by selling lower yielding invested assets to allow for reinvestment in higher yielding investments. This repositioning of the portfolio generated net realized capital losses.

As a result of the foregoing factors and the inclusion of non-recurring items in 1998, net income increased $44.2 million, or 16%, to $321.2 million in 1999, from $277.0 million in 1998. In 1998, net income for this segment included non-recurring items totaling $23.9 million, net of tax, related to a release of a tax reserve, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items".

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION SEGMENT

The table below presents certain summary financial data relating to the International Asset Management and Accumulation segment for the periods indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING EARNINGS DATA:					
Operating revenues(1):					
Premiums and other considerations	$ 46.4	$ 58.9	$220.5	$179.9	$147.1
Fees and other revenues	71.9	75.3	305.2	105.6	28.1
Net investment income	26.1	23.2	105.0	94.1	47.9
Total operating revenues	144.4	157.4	630.7	379.6	223.1
Expenses:					
Benefits, claims and settlement expenses	57.5	67.6	262.2	210.1	165.2
Operating expenses	93.6	90.9	372.3	212.1	101.2
Total expenses	151.1	158.5	634.5	422.2	266.4
Pre-tax operating loss	(6.7)	(1.1)	(3.8)	(42.6)	(43.3)
Income taxes (benefits)	(1.4)	3.4	4.7	(4.2)	(7.9)
Operating loss	(5.3)	(4.5)	(8.5)	(38.4)	(35.4)
Net realized capital gains (losses), as adjusted	(20.3)	4.7	1.4	7.7	12.0
Non-recurring items	--	--	--	--	13.3
GAAP REPORTED:					
Net income (loss)	$(25.6)	$ 0.2	$ (7.1)	$(30.7)	$(10.1)
OTHER DATA:					
Operating earnings (loss) before amortization of goodwill and other intangibles	$ 6.8	$ 4.6	$ 28.5	$(24.6)	$(28.5)

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(1) Excludes net realized capital gains (losses) and their impact on recognition of front-end fee revenues.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Premiums and other considerations decreased $12.5 million, or 21%, to $46.4 million for the three months ended March 31, 2001, from $58.9 million for the three months ended March 31, 2000. The decrease was related to the loss of $17.5 million of premiums and other considerations due to the February 2001 divestiture of our operations in Spain. A decrease of $5.1 million in Chile was primarily due to the weakening of the Chilean peso versus the U.S. dollar. The decreases were partially offset by a $9.6 million increase resulting from increased sales of single premium annuities with life contingencies in Mexico, primarily generated as a result of the addition of agents.

Fees and other revenues decreased $3.4 million, or 5%, to $71.9 million for the three months ended March 31, 2001, from $75.3 million for the three months ended March 31, 2000. The decrease was primarily related to a $7.8 million decrease of fee revenues contributed by BT Financial Group, primarily as a result of the weakening of the Australian dollar versus the U.S. dollar. The decrease was partially offset by a $4.1 million increase in Principal International fee revenues, a result of assets under management growth in Mexico, deposits growth in Hong Kong resulting from sales to plans established under the new Mandatory Provident Fund, which started in December 2000, and increased sales of universal life-type products in Argentina.

Net investment income increased $2.9 million, or 13%, to $26.1 million for the three months ended March 31, 2001, from $23.2 million for the three months ended March 31, 2000. The increase was primarily attributable to a $5.7 million increase from Principal International related to an 11% increase in average invested assets and cash and an increase in investment yields. The yield on average invested assets and cash was 8.2% for the three months ended March 31, 2001, compared to 6.8% for the three months ended March 31, 2000. In addition, a net increase of $0.7 million of equity method net investment income related to our pro rata share of net income, excluding the effect of goodwill amortization, of BrasilPrev Previdencia Privada S.A., a pension company in Brazil in which we acquired a minority interest in October 1999, and our pro rata share of net loss of ING/Principal Pensions Co., Ltd., a pension company in Japan in which we acquired a minority interest in January 2000. The increases were partially offset by the $2.1 million loss of net investment income resulting from the divestiture of our operations in Spain. The increases were also partially offset by a $1.5 million decrease related to the operations of BT Financial Group.

Benefits, claims and settlement expenses decreased $10.1 million, or 15%, to $57.5 million for the three months ended March 31, 2001, from $67.6 million for the three months ended March 31, 2000. The decrease was primarily related to the loss of $18.9 million of benefits, claims and settlement expenses resulting from the divestiture of our operations in Spain. The decrease was partially offset by a $9.3 million increase in reserve changes and policy and contract benefit payments in Mexico, the result of increased sales of single premium annuities with life contingencies.

Operating expenses increased $2.7 million, or 3%, to $93.6 million for the three months ended March 31, 2001, from $90.9 million for the three months ended March 31, 2000. The increase was primarily due to a $1.9 million increase of operating expenses incurred by BT Financial Group, including a $3.0 million increase in amortization of goodwill and other intangibles. The increase was partially offset by a decrease in operating expenses resulting from the weakening of the Australian dollar versus the U.S. dollar. In addition, a $2.5 million increase in Mexico was primarily attributable to commissions and compensation resulting from increased sales. These increases were partially offset by the loss of $1.9 million of operating expenses resulting from the divestiture of our operations in Spain.

Income tax expense (benefits) decreased $4.8 million to a $1.4 million income tax benefit for the three months ended March 31, 2001, from $3.4 million of income tax expense for the three months ended March 31, 2000. The decrease was primarily due to a decrease in pre-tax operating earnings from BT Financial Group.

As a result of the foregoing factors, operating loss increased $0.8 million, or 18%, to $5.3 million for the three months ended March 31, 2001, from $4.5 million for the three months ended March 31, 2000.

Net realized capital gains, as adjusted, decreased $25.0 million to $20.3 million of net realized capital losses for the three months ended March 31, 2001, from $4.7 million of net realized capital gains for the three months ended March 31, 2000. The decrease was primarily due to a $21.0 million after-tax net realized capital loss on the sale of our operations in Spain. In addition, a $4.4 million decrease was related to net realized capital gains from our operations in Spain for the three months ended March 31, 2000.

As a result of the foregoing factors, net income decreased $25.8 million to a $25.6 million net loss for the three months ended March 31, 2001, from $0.2 million net income for the three months ended March 31, 2000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Premiums and other considerations increased $40.6 million, or 23%, to $220.5 million in 2000, from $179.9 million in 1999. Increases of $16.9 million in Mexico, $16.7 million in Argentina and $5.9 million in Chile were primarily a result of increased sales of single premium annuities with life contingencies. The increased sales in Mexico were primarily a result of sales by Principal Pensiones, S.A. de C.V., an annuity company we established in July 1999. The increased sales in Argentina primarily resulted from sales by an annuity company we established in August 1999.

Fees and other revenues increased $199.6 million to $305.2 million in 2000, from $105.6 million in 1999. The increase was primarily related to a $180.2 million increase resulting from the contribution of fee revenues by BT Financial Group, which we acquired in August 1999. In addition, an $8.1 million increase was primarily due to lower fees and other revenues recognized in 1999 related to El Roble in Chile. An additional $6.5 million increase was primarily attributable to higher fee revenues from administering retirement funds in Mexico, due to the implementation of a more attractive pricing structure for our customers, which also resulted in increased retention of existing accounts and an increased number of covered lives.

Net investment income increased $10.9 million, or 12%, to $105.0 million in 2000, from $94.1 million in 1999. An $11.3 million increase was primarily attributable to an increase in average invested assets in Principal International. In addition, an $11.2 million increase resulted from our equity method investment gains related to our pro rata share of net income, excluding the effect of goodwill amortization, of BrasilPrev Previdencia Privada S.A., a pension company in Brazil in which we acquired a minority interest in October 1999. The increases were partially offset by an $8.7 million decrease related to the inclusion of BT Financial Group, primarily related to its margin lending business. The margin lending business was securitized in late 1999, which resulted in a shift of income generation from net investment income to fee revenues in 2000. The increases were also partially offset by a $3.1 million equity method investment loss related to our pro rata share of net loss of ING/Principal Pensions Co., Ltd., a pension company in Japan in which we acquired a minority interest in January 2000.

Benefits, claims and settlement expenses increased $52.1 million, or 25%, to $262.2 million in 2000, from $210.1 million in 1999. The increase was primarily due to an increase in reserve changes and policy and contract benefit payments of $18.5 million in Mexico and $18.4 million in Argentina, the result of increased sales of single premium annuities with life contingencies. In addition, a $13.4 million increase in reserve changes and policy and contract benefit payments in Chile primarily resulted from the increased sales of annuity products and the implementation of a new reserve calculation method to refine reserve calculations.

Operating expenses increased $160.2 million, or 76%, to $372.3 million in 2000, from $212.1 million in 1999. The increase was primarily due to a $151.1 million increase resulting from the inclusion of operating expenses incurred by BT Financial Group, including a $23.3 million increase in amortization of goodwill and other intangibles. The increase

also included $6.0 million of amortization of goodwill and present value of future profits related to BrasilPrev, which we acquired in October 1999.

Income tax expense (benefits) increased $8.9 million to $4.7 million of tax expense in 2000, from a $4.2 million tax benefit in 1999. The increase was primarily due to $9.1 million of income tax expense related to an increase in pre-tax operating earnings from BT Financial Group.

As a result of the foregoing factors, operating loss decreased $29.9 million, or 78%, to $8.5 million in 2000, from $38.4 million in 1999.

Net realized capital gains, as adjusted, decreased $6.3 million, or 82%, to $1.4 million in 2000, from $7.7 million in 1999. The decrease was primarily due to $4.7 million decrease in net realized capital gains in Principal International, resulting from repositioning of investment portfolios to better match long-term liabilities and assets in 1999. In addition, net realized capital gains, as adjusted, in 1999 included a $1.7 million gain on the sale of minority interest in a capital management company, which was sold following the acquisition of BT Financial Group.

As a result of the foregoing factors, net loss decreased $23.6 million, or 77%, to $7.1 million in 2000, from $30.7 million in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Premiums and other considerations increased $32.8 million, or 22%, to $179.9 million in 1999, from $147.1 million in 1998. An increase of $14.2 million was primarily due to increased premiums in Chile related to El Roble, which we acquired in July 1998. A $6.9 million increase related primarily to sales of single premium annuities with life contingencies by a newly formed annuity company, Principal Pensiones, S.A. de C.V., in Mexico in July 1999. Premiums and other considerations in Spain increased $6.7 million, primarily due to increased sales of single premium group annuities with life contingencies. Changes to the distribution within Principal Mexico Compania de Seguros S.A. de C.V., and new business generated as a result of name recognition of our two Mexican companies, Principal Afore S.A. de C.V. and Principal Pensiones S.A. de C.V., helped contribute to an increase in group insurance premiums of $2.2 million. In addition, premiums of $1.8 million were generated in 1999 related to a new lump sum individual annuity product with life contingencies in Argentina.

Fees and other revenues increased $77.5 million to $105.6 million in 1999, from $28.1 million in 1998. The increase was primarily related to BT Financial Group, which contributed $95.5 million of fees and other revenues in 1999. This increase was partially offset by a $9.7 million decrease relating to El Roble, and the loss of $6.5 million of fees due to our 1998 divestiture of a pension subsidiary in Argentina. The divestiture resulted from our decision to discontinue selling products related to the state-mandated retirement plan, which we determined did not generate adequate returns.

Net investment income increased $46.2 million, or 96%, to $94.1 million in 1999, from $47.9 million in 1998. The increase was primarily due to $19.7 million of increased net investment income related to our 1998 acquisition of El Roble. BT Financial Group generated $18.3 million of net investment income in 1999. An additional $6.7 million of the increase related to investment income received in 1999 on an international mutual fund in Chile, which had generated a loss in 1998. This mutual fund was classified as a trading security in 1998 and 1999, but has been classified as available-for-sale since January 1, 2000. Related gains and losses will be recognized in equity rather than net investment income.

Benefits, claims and settlement expenses increased $44.9 million, or 27%, to $210.1 million in 1999, from $165.2 million in 1998. The increase was primarily due to $27.0 million of additional expenses related to El Roble. In addition, an increase in changes in reserves of $7.8 million in Spain was due primarily to increased sales of single premium group annuities with life contingencies. In addition, the increase was also due to $6.9 million of expenses related to Principal Pensiones, which we formed in 1999 in Mexico. The increase was also due to a $1.0 million increase in change in reserves in Mexico, as a result of increased sales of group life insurance products.

Operating expenses increased $110.9 million, or 110%, to $212.1 million in 1999, from $101.2 million in 1998. The increase was primarily related to BT Financial Group, which contributed $117.3 million of operating expenses in 1999, including $13.7 million amortization of goodwill and other intangibles. The increase was partially offset by a $5.3 million decrease in expenses in Argentina, primarily related to the subsidiary we sold in 1998, and reductions in sales force and staff levels in our remaining operations in Argentina.

Income tax benefits decreased $3.7 million, or 47%, to $4.2 million in 1999, from $7.9 million in 1998. A decrease in income tax benefits of $2.4 million was primarily associated with deferred tax assets related to income tax benefits in our international asset accumulation operations that were not recognized due to loss carryforwards we determined would not be utilized. The decrease was also due to $1.3 million of income tax expense related to BT Financial Group, which we acquired in August 1999.

As a result of the foregoing factors, operating loss increased $3.0 million, or 8%, to $38.4 million in 1999, from $35.4 million in 1998.

Net realized capital gains, as adjusted, decreased $4.3 million, or 36%, to $7.7 million in 1999, from $12.0 million in 1998. Net realized capital gains decreased $6.0 million, primarily because 1998 included the gain on the sale of the pension subsidiary in Argentina in 1998, as previously discussed. The decrease was offset by $1.7 million of net realized capital gains contributed by BT Financial Group.

As a result of the foregoing factors and the inclusion of non-recurring items in 1998, net loss increased $20.6 million to $30.7 million in 1999, from $10.1 million in 1998. In 1998, our net loss included the positive effects of $13.3 million, net of tax, of non-recurring items related to accounting changes by Principal International.

LIFE AND HEALTH INSURANCE SEGMENT

The table below presents certain summary financial data relating to the Life and Health Insurance segment for the periods indicated:

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING EARNINGS DATA:					
Operating Revenues(1):					
Premiums and other considerations	$ 768.3	$ 842.0	$3,250.5	$3,190.6	$3,126.6
Fees and other revenues	64.9	49.8	230.0	180.2	146.7
Net investment income	169.2	155.6	642.1	614.7	619.8
Total operating revenues	1,002.4	1,047.4	4,122.6	3,985.5	3,893.1
Expenses:					
Benefits, claims and settlement expenses	645.0	697.8	2,659.4	2,714.9	2,605.3
Dividends to policyholders	78.2	74.7	308.1	295.6	300.0
Operating expenses	215.2	224.3	913.6	872.0	892.4
Total expenses	938.4	996.8	3,881.1	3,882.5	3,797.7
Pre-tax operating earnings	64.0	50.6	241.5	103.0	95.4
Income taxes	21.5	14.0	79.2	12.3	45.4
Operating earnings	42.5	36.6	162.3	90.7	50.0
Net realized capital gains (losses), as adjusted	(0.6)	54.8	47.3	10.1	1.9
Non-recurring items	0.1	--	--	--	60.1
GAAP REPORTED:					
Net income	$ 42.0	$ 91.4	$ 209.6	$ 100.8	$ 112.0
OTHER DATA:					
Premiums and other considerations:					
Group life and health insurance	$ 555.4	$ 630.8	$2,403.5	$2,345.2	$2,278.8
Individual life and disability insurance	212.9	211.2	847.0	845.4	847.8
Incurred loss ratios(2) (in percents):					
Group life insurance	69%	79%	70%	71%	79%
Group disability insurance	86	104	85	80	102
Group medical and group Medicare supplement insurance(3)	82	81	83	90	85
Group dental and vision insurance	77	77	76	77	77

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(1) Excludes net realized capital gains (losses) and their impact on recognition of front-end fee revenues.

(2) Ratios exclude the impact of the change in experience related reserves for all time periods, to reflect underlying claim experience.

(3) Ratios exclude group Medicare supplement insurance after July 1, 2000, the date at which group Medicare supplement insurance was 100% reinsured.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Premiums and other considerations decreased $73.7 million, or 9%, to $768.3 million for the three months ended March 31, 2001, from $842.0 million for the three months ended March 31, 2000. Group Medicare supplement insurance premium decreased $48.8 million, resulting from our decision to reinsure 100% of this business effective July 1, 2000. Large premium rate increases in 2000 led to high lapses and low sales of group medical insurance, which resulted in a $30.1 million decrease in premiums. Group life insurance premium decreased $7.3 million primarily due to

the loss of two large customers and an overall increase in lapses associated with lapses of group medical coverages. These decreases were partially offset by a $9.9 million increase in group dental insurance premium due to increases in dental premium rates.

Fees and other revenues increased $15.1 million, or 30%, to $64.9 million for the three months ended March 31, 2001, from $49.8 million for the three months ended March 31, 2000. Fee revenues from individual interest-sensitive life insurance products increased $6.1 million, a result of growth in that block of business. The growth reflected a continued shift in customer preference from individual traditional life insurance products to individual universal life and individual variable universal life insurance products. Fee revenues from our group fee-for-service business and our group medical insurance business increased $5.6 million and $1.4 million, respectively, primarily due to increases in fee rates. Individual traditional life insurance and other life insurance fee revenues increased $1.2 million, primarily related to Executive Benefit Services, Inc., a company we acquired in January 2001 that specializes in the sale of executive benefit products and services to businesses.

Net investment income increased $13.6 million, or 9%, to $169.2 million for the three months ended March 31, 2001, from $155.6 million for the three months ended March 31, 2000. The increase was primarily due to a $368.4 million, or 4%, increase in average invested assets and cash for the segment. Net investment income also increased due to an increase in average investment yields for the segment. The yield on average invested assets and cash was 7.7% for the three months ended March 31, 2001, compared to 7.3% for the three months ended March 31, 2000, primarily due to higher interest yields on fixed income securities backing product liabilities.

Benefits, claims and settlement expenses decreased $52.8 million, or 8%, to $645.0 million for the three months ended March 31, 2001, from $697.8 million for the three months ended March 31, 2000. Group Medicare supplement insurance benefits, claims and settlement expenses decreased $52.7 million, resulting from our decision to reinsure 100% of this business effective July 1, 2000. Group life insurance benefits, claims and settlement expenses decreased $13.5 million due to lower mortality experience and the loss of two large customers. These decreases were partially offset by a $7.4 million increase in dental insurance benefits, claims and settlement expenses and a $4.0 million increase in individual interest-sensitive life insurance benefits, claims and settlement expenses due to growth in these blocks of business.

Dividends to policyholders increased $3.5 million, or 5%, to $78.2 million for the three months ended March 31, 2001, from $74.7 million for the three months ended March 31, 2000. The increase was due to increased dividends on traditional individual life insurance products, a result of increases in the cash values of the policies.

Operating expenses decreased $9.1 million, or 4%, to $215.2 million for the three months ended March 31, 2001, from $224.3 million for the three months ended March 31, 2000. Group life and health insurance operating expenses decreased $10.9 million, primarily due to a decrease in commissions resulting from our decision to reinsure 100% of our group Medicare supplement insurance business effective July 1, 2000. This decrease was offset by a $1.8 million increase in individual life and health operating expenses, primarily attributable to growth in our individual disability insurance block of business and higher amortization of deferred policy acquisition costs related to individual disability insurance.

Income taxes increased $7.5 million, or 54%, to $21.5 million for the three months ended March 31, 2001, from $14.0 million for the three months ended March 31, 2000. The effective income tax rate for this segment was 34% for the three months ended March 31, 2001 and 28% for the three months ended March 31, 2000. The effective income tax rate for the three months ended March 31, 2001 was lower than the corporate income tax rate of 35%, primarily due to tax-exempt income. The effective tax rate for the three months ended March 31, 2000 was lower than the corporate income tax rate of 35%, primarily due to tax exempt income and a reduction in a tax reserve as a result of a favorable IRS audit event.

As a result of the foregoing factors, operating earnings increased $5.9 million, or 16%, to $42.5 million for the three months ended March 31, 2001, from $36.6 million for the three months ended March 31, 2000.

Net realized capital gains (losses), as adjusted, decreased $55.4 million, or 101%, to a $0.6 million net realized capital loss for the three months ended March 31, 2001, from a $54.8 million net realized capital gain for the three months ended March 31, 2000. The decrease primarily related to the sale of our investment in United Payors and United Providers. In 2000, we sold our remaining investment and realized an after-tax capital gain of $58.9 million. The decrease was also due to losses from permanent impairments of fixed maturity securities during the three months ended March 31, 2001. The decreases were partially offset by the positive effects of a change in the mortgage loan valuation allowance, primarily reflecting a decrease in the amount invested in commercial mortgage loans.

As a result of the foregoing factors and the inclusion of non-recurring items for the three months ended March 31, 2001, net income decreased $49.4 million, or 54%, to $42.0 million for the three months ended March 31, 2001, from $91.4 million for the three months ended March 31, 2000. Non-recurring items for the three months ended March 31, 2001 had a positive impact on net income of $0.1 million, net of tax, due to the cumulative effect of accounting change, net of income taxes, related to our implementation of FAS 133, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items."

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Premiums and other considerations increased $59.9 million, or 2%, to $3,250.5 million in 2000, from $3,190.6 million in 1999. Group dental insurance premiums increased $72.3 million, primarily resulting from increased sales of group dental insurance products. Group medical premiums increased $38.3 million, primarily related to an increase in the premium base due to increased sales in late 1999, and significant group medical premium rate increases. Also contributing to the increase was a $9.6 million increase in individual disability insurance premiums due to continued growth in sales. Group disability insurance premiums increased $8.4 million due to an increase in long-term disability covered members and an increase in short-term disability premium per member. These increases were partially offset by a $66.2 million decrease in group Medicare supplement premium, resulting from our decision to cease new sales of group Medicare supplement insurance in January 2000 and our decision to reinsure 100% of this business effective July 1, 2000.

Fees and other revenues increased $49.8 million, or 28%, to $230.0 million in 2000, from $180.2 million in 1999. Fee revenues from individual interest-sensitive life insurance products increased $27.4 million, a result of growth in that block of business. The growth reflects a continued shift in customer preference from individual traditional life insurance products to individual universal life and individual variable life insurance products. Fee revenues from our group fee-for-service business increased $20.3 million, primarily due to increases in members and fees.

Net investment income increased $27.4 million, or 4%, to $642.1 million in 2000, from $614.7 million in 1999. The increase was primarily due to a $483.9 million, or 6%, increase in average invested assets and cash for the segment. The increase in net investment income due to asset growth was partially offset by a decrease in average investment yields for the segment. The yield on average invested assets and cash was 7.4% in 2000, compared to 7.5% in 1999, due to a decrease in interest credited on assets backing allocated capital. The decrease in interest credited was partially offset by higher interest rates on fixed income investments backing product liabilities.

Benefits, claims and settlement expenses decreased $55.5 million, or 2%, to $2,659.4 million in 2000, from $2,714.9 million in 1999. Group medical insurance benefits claims and settlement expenses decreased $108.6 million, primarily resulting from the release of claim reserves established in 1999. The claim reserves were established in 1999 as a result of poor claim experience during the year and an expectation that claims would continue to increase through the second quarter of 2000. This decrease was partially offset by an increase in claims due to rising medical costs. Benefits, claims and settlement expenses also decreased $102.8 million for group Medicare supplement insurance, as a result of our reinsuring this business effective July 1, 2000, improved claim experience during the first half of the year and the release of reserves established in 1999, for the same reasons previously described for our group medical business. These decreases were partially offset by a $56.1 million increase in group dental benefits, claims and settlement expenses, primarily due to growth in that block of business. Individual disability insurance claims and reserves increased $49.5 million, primarily due to less favorable morbidity experience and related increases in reserves for claims and incurred but not reported claims. Individual interest-sensitive life insurance benefits and claims increased $40.2 million, primarily due to an increase in both interest credited and mortality costs, primarily resulting from growth in the block of business and reserve adjustments. Group disability claims and reserves increased $9.5 million, primarily a result of less favorable morbidity experience and an increase in covered members.

Dividends to policyholders increased $12.5 million, or 4%, to $308.1 million in 2000, from $295.6 million in 1999. The increase was due to increased dividends on traditional individual life insurance products, a result of increases in the cash values of the policies.

Operating expenses increased $41.6 million, or 5%, to $913.6 million in 2000, from $872.0 million in 1999. Group life and health insurance operating expenses increased $26.0 million, primarily due to expenses related to our group Medicare supplement business, and a write-down of goodwill related to group Medicare supplement insurance. Group life and health insurance operating expenses also increased due to an increase in commissions, resulting from higher commission scales, an increase in premium, and settlements with wholesale distributors related to discontinued group health business. These increases were offset by a decrease in general expenses related to both our group medical and group Medicare supplement insurance products. Individual life and disability insurance operating expenses also increased $15.6 million, primarily due to an increase in amortization of deferred policy acquisition costs related to individual disability insurance.

Income taxes increased $66.9 million to $79.2 million in 2000, from $12.3 million in 1999. The effective income tax rate for this segment was 33% in 2000 and 12% in 1999. The effective tax rate for 2000 was lower than the corporate income tax rate of 35% due to tax-exempt income. The effective income tax rate for 1999 was lower than the corporate income tax rate of 35%, primarily resulting from overestimated deferred taxes related to health insurance reserves in 1998, the effects of which were reversed in 1999 and also due to tax-exempt income.

As a result of the foregoing factors, operating earnings increased $71.6 million, or 79%, to $162.3 million in 2000, from $90.7 million in 1999.

Net realized capital gains, as adjusted, increased $37.2 million to $47.3 million in 2000, from $10.1 million in 1999. The increase was primarily due to net realized capital gains, as adjusted, related to the sale of our investment in United

Payors and United Providers. We sold a portion of our investment in 1999, realizing an after-tax capital gain of $17.9 million. In 2000, we sold our remaining investment and realized an after-tax capital gain of $58.9 million. The increase in capital gains was partially offset by a $2.3 million increase in net realized capital losses on sales of fixed income securities, as a result of our investment portfolio repositioning strategy to sell lower yielding fixed income securities to allow for reinvestment in higher yielding fixed income securities.

As a result of the foregoing factors, net income increased $108.8 million, or 108%, to $209.6 million in 2000, from $100.8 million in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Premiums and other considerations increased $64.0 million, or 2%, to $3,190.6 million in 1999, from $3,126.6 million in 1998. In 1999, group health insurance premiums increased $55.3 million, as a result of increased sales of our dental insurance products. Premiums and other considerations also increased $43.4 million for Medicare supplement insurance products and $40.5 million for group medical insurance products, a result of prices being more competitive and new sales incentives. Premiums increased $9.1 million due to an increase in sales of individual disability insurance products, as a result of increased marketing efforts. Premiums also increased $3.4 million for group disability insurance products, due to growth in our short-term disability insurance product. The increases were partially offset by a $77.2 million decrease in group life insurance products, due to our decision to terminate our participation during 1998 in two large government reinsurance pools that were producing inadequate returns. Also, individual traditional life insurance premiums decreased by $11.5 million in 1999, continuing a shift in customer preference from traditional life insurance products to universal life and variable life insurance products.

Fees and other revenues increased $33.5 million, or 23%, to $180.2 million in 1999, from $146.7 million in 1998. Fees and other revenues increased in 1999, primarily due to a $15.1 million increase in fee revenues from our group fee-for-service business, a result of increased sales due to focused marketing and distribution efforts to provide more clients with customized services that resulted in higher fees. Also, fee revenues from individual interest-sensitive life insurance products increased $12.0 million in 1999. The increase reflects the shift in customer preference from traditional life insurance products to universal life and variable life insurance products, as previously discussed. Fee revenues from traditional life insurance products increased $2.2 million, due to growth in reinsurance fee revenues associated with term life insurance products. Fee revenues from dental insurance products and services increased $2.0 million, related to our 1998 acquisition of Dental Net, Inc., an integrated managed dental services organization. Fee revenues related to group life insurance also increased $0.8 million.

Net investment income decreased $5.1 million, or 1%, to $614.7 million in 1999, from $619.8 million in 1998. The decrease in 1999 was primarily due to a decrease in average investment yields for the segment. The yield on the weighted average invested assets and cash was 7.5% in 1999, compared to 7.8% in 1998. The decrease reflects lower interest rates on new fixed income investments. The decrease was partially offset by a $247.8 million, or 3%, increase in average invested assets for the segment.

Benefits, claims and settlement expenses increased $109.6 million, or 4%, to $2,714.9 million in 1999, from $2,605.3 million in 1998. The increase in 1999 was primarily due to a $122.3 million increase in group medical benefits and reserve increases, and a $53.8 million increase in Medicare supplement benefits and reserve increases, primarily a result of claim reserves established in 1999, as a result of poor claim experience through the third quarter of 1999 and an expectation that claims would continue to increase through the second quarter of 2000. Group medical and Medicare supplement benefits, claims and settlement expenses also increased, due to growth in the blocks of business. Dental insurance claims also increased $41.7 million, due primarily to growth in our dental insurance business. The increase was partially offset by an $87.0 million decrease in group life insurance claims and reserves, due primarily to our decision to terminate our participation in two large government reinsurance pools during 1998.

Dividends to policyholders decreased $4.4 million, or 1%, to $295.6 million in 1999, from $300.0 million in 1998. The decrease was primarily due to a $13.9 million decrease in group life and health insurance dividends. After July 1, 1998, new issues and renewals of group life and health contracts were in the form of non-participating policies. The policies included experience refund provisions that were reported as reductions of premiums in 1999, instead of as dividends to policyholders. The change in presentation did not affect net income. The decrease was partially offset by a $9.5 million increase in individual traditional life insurance dividends, primarily a result of increases in the cash values of the policies and in the interest rates credited to the policies.

Operating expenses decreased $20.4 million, or 2%, to $872.0 million in 1999, from $892.4 million in 1998. Operating expenses were lower in 1999, primarily due to a $28.3 million decrease in individual life and disability insurance expenses due to a decrease in amortization of deferred policy acquisition costs in 1999 compared to 1998. Amortization was higher in 1998, due to loss recognition on older blocks of business. The decrease was partially offset by a $7.9 million increase in group life and health insurance expenses, primarily due to an increase in the distribution costs related to the acquisition of a distribution system, higher commission scales and an increase in dental insurance operating expenses due to our acquisition of Dental Net, Inc.

Income taxes decreased $33.1 million, or 73%, to $12.3 million in 1999, from $45.4 million in 1998. The effective income tax rate for this segment was 12% in 1999 and 48% in 1998, compared to the corporate income tax rate of 35%. The effective tax rates differed from the corporate income tax rate in 1999 and 1998, due to overestimated deferred taxes related to health reserves in 1998, the effects of which were reversed in 1999.

As a result of the foregoing factors, operating earnings increased $40.7 million, or 81%, to $90.7 million in 1999, from $50.0 million in 1998.

Net realized capital gains, as adjusted, increased $8.2 million to $10.1 million in 1999, from $1.9 million in 1998, primarily due to a $17.9 million net realized capital gain related to the sale of a portion of our equity investment in United Payors and United Providers. This capital gain was offset by a net $9.7 million decrease in net realized capital gains, primarily due to net realized capital losses on sales of fixed income investments, as a result of our investment portfolio repositioning strategy to sell lower yielding fixed income securities to allow for reinvestment in higher yielding fixed income securities.

As a result of the foregoing factors and the inclusion of non-recurring items in 1998, net income decreased $11.2 million, or 10%, to $100.8 million in 1999, from $112.0 million in 1998. Net income was higher in 1998, primarily due to the positive impacts of non-recurring items totaling $60.1 million, net of tax, which included a $76.5 million release of tax reserves, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items," and expenses related to amortization of deferred policy acquisition costs associated with the formation of the mutual insurance holding company.

MORTGAGE BANKING SEGMENT

The table below presents certain summary financial data relating to the Mortgage Banking segment for the periods indicated:

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING EARNINGS DATA:					
Operating Revenues:(1)					
Loan servicing	$ 88.9	$ 85.0	$ 313.8	$ 286.5	$ 235.4
Loan production	30.7	12.7	46.0	111.8	105.2
Total operating revenues	119.6	97.7	359.8	398.3	340.6
Expenses:					
Loan servicing	59.6	54.9	215.3	241.3	180.9
Loan production	23.3	15.1	67.4	69.5	69.3
Total expenses	82.9	70.0	282.7	310.8	250.2
Pre-tax operating earnings	36.7	27.7	77.1	87.5	90.4
Income taxes	12.8	9.7	27.1	30.7	31.6
Operating earnings	23.9	18.0	50.0	56.8	58.8
Net realized capital gains (losses), as adjusted	--	--	--	--	--
Non-recurring items	--	--	--	--	--
GAAP REPORTED:					
Net income	$ 23.9	$ 18.0	$ 50.0	$ 56.8	$ 58.8
OTHER DATA:					
Mortgage loan production volume	$ 4,854.9	$ 1,312.6	$ 8,311.8	$13,307.3	$12,120.5
Gain on sale of mortgage loans	17.4	2.6	9.4	55.2	59.5
Mortgage loan servicing portfolio	57,304.8	51,091.9	55,987.4	51,875.5	41,973.0
Gain on sale of mortgage loan servicing rights	6.1	13.9	14.9	5.5	1.8

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(1) Excludes net realized capital gains (losses) and their impact on recognition of front-end fee revenues.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Total operating revenues increased $21.9 million, or 22%, to $119.6 million for the three months ended March 31, 2001, from $97.7 million for the three months ended March 31, 2000. The increase was primarily due to an $18.0 million increase in mortgage loan production revenues, reflecting the increase in mortgage loan production volume during the three months ended March 31, 2001. In addition, mortgage loan servicing revenues increased $3.9 million, reflecting the

growth in the mortgage loan servicing portfolio. The increase in mortgage loan servicing revenues was partially offset by a decrease in sales of mortgage loan servicing rights.

Total expenses increased $12.9 million, or 18%, to $82.9 million for the three months ended March 31, 2001, from $70.0 million for the three months ended March 31, 2000. The increase was primarily due to an $8.2 million increase in expenses related to mortgage loan production, reflecting the increase in mortgage loan production volume. An increase of $4.7 million in mortgage loan servicing expenses was primarily due to an increase in the reserve for estimated future loan losses and the increase in the mortgage loan servicing portfolio. The increase in mortgage loan servicing expenses was partially offset by net gains on servicing hedge activity.

Income taxes increased $3.1 million, or 32%, to $12.8 million for the three months ended March 31, 2001, from $9.7 million for the three months ended March 31, 2000. The effective income tax rate for this segment was 35% for both the three months ended March 31, 2001 and 2000.

As a result of the foregoing factors, operating earnings and net income increased $5.9 million, or 33%, to $23.9 million for the three months ended March 31, 2001, from $18.0 million for the three months ended March 31, 2000.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Total operating revenues decreased $38.5 million, or 10%, to $359.8 million in 2000, from $398.3 million in 1999. The decrease was primarily due to a $65.8 million decrease in mortgage loan production revenues, reflecting the decrease in mortgage loan production volume during 2000. The decrease in total revenues was partially offset by a $27.3 million increase in mortgage loan servicing revenues, primarily due to growth in the average balance of the mortgage loan servicing portfolio. Additionally, an increase in mortgage loan servicing fee revenues was the result of the sale of mortgage loan servicing rights, representing approximately $1.0 billion from the mortgage loan servicing portfolio, as part of our mortgage loan servicing strategy.

Total expenses decreased $28.1 million, or 9%, to $282.7 million in 2000 from $310.8 million in 1999. The decrease was primarily due to a $26.0 million decrease in expenses related to mortgage loan servicing, primarily a result of net gains we earned on hedges related to our servicing portfolio in 2000. In the second quarter of 2000, we shifted our servicing hedge portfolio from U.S. Treasury-related instruments to London Inter-Bank Offer Rate based hedges including swaps and swaptions, which resulted in net gains of $10.2 million. The decrease was also due to a $2.1 million decrease in mortgage loan production expenses related to the decrease in mortgage loan production volume during 2000.

Income taxes decreased $3.6 million, or 12%, to $27.1 million in 2000, from $30.7 million in 1999. The effective income tax rate for this segment was 35% in both 2000 and 1999.

As a result of the foregoing factors, operating earnings and net income decreased $6.8 million, or 12%, to $50.0 million in 2000, from $56.8 million in 1999.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Total operating revenues increased $57.7 million, or 17%, to $398.3 million in 1999, from $340.6 million in 1998. The increase was primarily due to a $58.4 million increase in residential mortgage loan servicing revenues. The increase in revenues was partially offset by a $7.3 million decrease in revenues, resulting from our sale of Principal Portfolio Services, Inc., a mortgage loan due diligence service provider, in January 1999. The mortgage loan servicing portfolio increased by $9.9 billion, or 24%, to $51.9 billion in 1999, from $42.0 billion in 1998. The mortgage loan servicing portfolio growth during 1999 was due to higher mortgage loan production and acquisitions of mortgage loan servicing rights, representing $5.6 billion in unpaid principal balances. Mortgage loan production related revenues increased $6.6 million, due to higher mortgage loan production volumes in 1999.

Total expenses increased $60.6 million, or 24%, to $310.8 million in 1999, from $250.2 million in 1998. The increase in total expenses was attributable to a $67.6 million increase related to mortgage loan servicing, primarily reflecting an increase in amortization of mortgage loan servicing rights, a result of the increase in our mortgage loan servicing portfolio. This increase was partially offset by a $7.2 million decrease in expenses, resulting from our sale of Principal Portfolio Services, Inc.

Income taxes decreased $0.9 million, or 3%, to $30.7 million in 1999, from $31.6 million in 1998. The effective income tax rate for this segment was 35% for both 1999 and 1998.

As a result of the foregoing factors, operating earnings and net income decreased $2.0 million, or 3%, to $56.8 million in 1999, from $58.8 million in 1998.

CORPORATE AND OTHER SEGMENT

The table below presents summary financial data relating to the Corporate and Other segment for the periods indicated:

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	2000	1999	1998
	($ IN MILLIONS)				
OPERATING EARNINGS DATA:					
Operating Revenues:(1)					
Total operating revenues	$ 35.0	$29.0	$ 97.1	$ 61.9	$342.5
Expenses:					
Total expenses	2.7	14.9	14.4	54.1	430.6
Pre-tax operating earnings (loss)	32.3	14.1	82.7	7.8	(88.1)
Income taxes (benefits)	8.5	9.6	15.0	(1.7)	(43.8)
Operating earnings (loss)	23.8	4.5	67.7	9.5	(44.3)
Net realized capital gains (losses), as adjusted	(19.6)	9.1	80.3	284.5	292.1
Non-recurring items	(9.8)	--	(101.0)	--	7.5
GAAP REPORTED:					
Net income (loss)	$ (5.6)	$13.6	$ 47.0	$294.0	$255.3

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(1) Excludes net realized capital gains (losses) and their impact on recognition of front-end fee revenues.

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Total operating revenues increased $6.0 million, or 21%, to $35.0 million for the three months ended March 31, 2001, from $29.0 million for the three months ended March 31, 2000. Operating revenues increased $11.0 million, primarily as a result of improved investment yields for the segment. The increase was partially offset by a $5.1 million change in inter-segment eliminations included in this segment, which was offset by a corresponding change in total expenses.

Total expenses decreased $12.2 million, or 82%, to $2.7 million for the three months ended March 31, 2001, from $14.9 million for the three months ended March 31, 2000. The decrease was primarily related to a $5.1 million change in inter-segment eliminations included in this segment. Interest expense on commercial paper issued in connection with the acquisition of BT Financial Group decreased $2.6 million as a result of the repayment of commercial paper. In addition, interest expense decreased $2.3 million as a result of a reduction of commercial real estate debt on home office properties. Interest expense also decreased $1.9 million, primarily due to an accrual of interest to be received as a result of the resolution of a favorable IRS tax audit event in 2000.

Income taxes decreased $1.1 million, or 11%, to $8.5 million for the three months ended March 31, 2001, from $9.6 million for the three months ended March 31, 2000. The effective income tax rates for this segment were 26% for the three months ended March 31, 2001 and 68% for the three months ended March 31, 2000. The effective income tax rate for the three months ended March 31, 2001 was lower than the corporate income tax rate of 35% because of tax exempt income, non-taxable income and tax credits. The effective income tax rate for the three months ended March 31, 2000 was higher than the corporate income tax rate of 35% due to an increase in income tax reserves established for contested IRS tax audit matters.

As a result of the foregoing factors, operating earnings increased $19.3 million to $23.8 million for the three months ended March 31, 2001, from $4.5 million for the three months ended March 31, 2000.

Net realized capital gains, as adjusted, decreased $28.7 million to $19.6 million of net realized capital losses for the three months ended March 31, 2001, from $9.1 million of net realized capital gains for the three months ended March 31, 2000. The decrease was primarily due to lower capital gains on sales of equity securities due to the decline in the equity markets.

As a result of the foregoing factors and the inclusion of non-recurring items for the three months ended March 31, 2001, net income decreased $19.2 million to a $5.6 million net loss for the three months ended March 31, 2001, from $13.6 million net income for the three months ended March 31, 2000. For the three months ended March 31, 2001, net income included the negative effect of non-recurring items totaling $9.8 million, net of tax, related to: (1) a loss contingency reserve established for sales practices litigation ($5.9 million) and (2) demutualization costs ($3.9 million), as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items."

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Total operating revenues increased $35.2 million, or 57%, to $97.1 million in 2000, from $61.9 million in 1999. Net investment income increased $71.0 million, as a result of improved investment yields for the segment. The increase was partially offset by an $11.5 million decrease in net investment income, reflecting a reduction in average invested assets, primarily due to the sale of invested assets in 1999 to partially fund the acquisition of BT Financial Group. The increase in total revenues was also partially offset by a $9.0 million decrease related to a change in inter-segment eliminations included in this segment, which was offset by a corresponding change in total expenses. In addition, the increase was also partially offset by an $8.5 million decrease in fees and other revenues, primarily related to the termination of a reinsurance and participation agreement under which we continued to receive fee revenues in 1999, but not in 2000. Net investment income also decreased $5.0 million related to our pro rata share of net loss of HealthExtras, Inc., a company in which we hold a minority interest.

Total expenses decreased $39.7 million, or 73%, to $14.4 million in 2000, from $54.1 million in 1999. Interest expense related to IRS tax audit matters decreased $40.8 million, primarily due to a net recovery of previously paid interest related to a successful tax audit appeal. Expenses also decreased $33.2 million due to the cessation of interim service agreements with Coventry at the end of 1999. A $9.0 million decrease in operating expenses was related to a change in inter-segment eliminations included in this segment. The decreases were partially offset by $31.2 million of additional interest expense in 2000 on private debt securities and commercial paper issued in connection with the acquisition of BT Financial Group in August 1999. In addition, a $10.0 million increase was related primarily to corporate initiatives funded by this segment.

Income tax expense (benefits) increased $16.7 million to $15.0 million of tax expense in 2000, from a $1.7 million income tax benefit in 1999. The increase was primarily a result of an increase in pre-tax operating earnings, which included tax exempt income. The effective income tax rate for this segment was lower than the corporate income tax rate of 35% in both 2000 and 1999 because of tax exempt income.

As a result of the foregoing factors, operating earnings increased $58.2 million to $67.7 million in 2000, from $9.5 million in 1999.

Net realized capital gains, as adjusted, decreased $204.2 million, or 72%, to $80.3 million in 2000, from $284.5 million in 1999. The decrease was primarily due to decreased sales of invested assets, primarily equity securities, in 2000. We sold a significant portion of our equity securities portfolio in 1999 and 1998 to reduce our exposure to common stock and to realize appreciation.

As a result of the foregoing factors and the inclusion of non-recurring items in 2000, net income decreased $247.0 million, or 84%, to $47.0 million in 2000, from $294.0 million in 1999. In 2000, net income included the negative effect of non-recurring items totaling $101.0 million, net of tax, related to: (1) a loss contingency reserve established for sales practices litigation ($93.8 million) and (2) demutualization costs ($7.2 million), as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items".

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Total operating revenues decreased $280.6 million, or 82%, to $61.9 million in 1999, from $342.5 million in 1998. Our HMO operations contributed $272.6 million of total revenues in 1998, prior to being transferred to Coventry.

Excluding the impact of HMO operations, total operating revenues decreased $8.0 million, or 11%, to $61.9 million in 1999, from $69.9 million in 1998. Our U.S. asset management operations were transferred to the U.S. Asset Management and Accumulation segment, effective January 1, 1999, and the financial results of the U.S. asset management operations are no longer reported in the Corporate and Other segment. This transfer resulted in decreased revenues of $22.7 million, representing $10.6 million of fee revenues collected from institutional clients for investment management services in 1998 and $12.1 million of net investment income related to the operations in 1998. An additional decrease in net investment income of $10.5 million was primarily due to $520.0 million of invested assets sold in 1999 to partially fund the acquisition of BT Financial Group. The decreases were partially offset by a $28.9 million increase in net investment income, related to our pro rata share of Coventry's net income, as a result of Coventry's improved earnings in 1999, as compared to 1998.

Total expenses decreased $376.5 million, or 87%, to $54.1 million in 1999, from $430.6 million in 1998. Our HMO operations contributed $342.3 million of expenses in 1998 prior to being transferred to Coventry.

Excluding the impact of HMO operations, total expenses decreased $34.2 million, or 39%, to $54.1 million in 1999, from $88.3 million in 1998. The decrease was primarily related to $16.3 million of operating expenses of the U.S. asset management operations that were transferred to the U.S. Asset Management and Accumulation segment, effective January 1, 1999. Prior to the transfer, these expenses were reported in the Corporate and Other segment.

Income tax benefits decreased $42.1 million, or 96%, to $1.7 million in 1999, from $43.8 million in 1998. As a result of an increase in pre-tax operating earnings, income tax benefits decreased $33.5 million. The remaining $8.6 million income tax benefit decrease was related to settlements of prior year IRS tax audits.

As a result of the foregoing factors, operating earnings increased $53.8 million, or 121%, to $9.5 million in 1999, from a $44.3 million operating loss in 1998.

Net realized capital gains, as adjusted, decreased $7.6 million, or 3%, to $284.5 million in 1999, from $292.1 million in 1998. We sold a significant portion of our equity securities portfolio in 1999 and 1998 to reduce our exposure to common stock and to realize appreciation. Our sales of invested assets, primarily equity securities, increased in 1999 and resulted in a $33.1 million increase in realized capital gains. This increase was more than offset by a $40.7 million increase in capital gains taxes in 1999, compared to 1998. Capital gains taxes were lower in 1998, due to permanent income tax differences in that year related to a gain on appreciated common stock contributed to the Principal Financial Group Foundation that was not realized for income tax purposes.

As a result of the foregoing factors and the inclusion of non-recurring items in 1998, net income increased $38.7 million, or 15%, to $294.0 million in 1999, from $255.3 million in 1998. In 1998, net income included non-recurring items totaling $7.5 million, net of tax, related to:

- the positive effects of a release of tax reserves; and

- the negative effects of (a) a contribution related to permanent endowment of the Principal Financial Group Foundation and (b) expenses related to our reorganization into a mutual insurance holding company structure, as previously discussed under the caption "-- Transactions Affecting Comparability of Results of Operations -- Operating Earnings and Non-Recurring Items".

LIQUIDITY AND CAPITAL RESOURCES

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of business operations. The primary source of our liquidity will be dividends we receive from Principal Life. We could also receive dividends from our other direct subsidiaries, including Princor Financial Services Corporation, Principal Financial Services (Australia) Inc., Principal International de Chile, S.A. and PFG do Brasil Ltda. However, given the historical cash flows of the operations and financial results of these subsidiaries, it is unlikely that we may rely upon them for significant cash flow in the next twelve months. In addition, we will retain up to $250.0 million of the net proceeds from this offering to be used for working capital, payment of dividends and other general corporate purposes.

The payment of dividends by Principal Life to us is limited by Iowa laws. Under Iowa laws, Principal Life may pay dividends only from the earned profits arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa to pay any dividend that would exceed statutory limitations. The current statutory limitation is the greater of:

- 10% of Principal Life's statutory surplus as of the previous calendar year-end; or

- the net gain from operations of Principal Life determined on a statutory basis for the previous calendar year.

Iowa law gives the Insurance Commissioner of the State of Iowa discretion to disapprove requests for dividends in excess of these limits. Principal Life will be able to pay approximately $760.9 million in dividends in 2001 based on its 2000 statutory results without being subject to the restrictions on payment of extraordinary stockholder dividends, of which $510.9 million had been paid, as of April 30, 2001. The ability to make dividends or distributions in the future will depend on the amounts of statutory surplus and net gain from operations determined on a statutory basis for the previous year.

Our primary uses of liquidity could include payment of dividends on our common stock, interest payments and any other payments related to debt servicing, payment of general operating expenses, contributions to subsidiaries, potential acquisitions and the repurchase of common stock.

SOURCES AND USES OF CASH OF CONSOLIDATED OPERATIONS

Net cash provided by operating activities was $668.3 million and $250.4 million for the three months ended March 31, 2001 and 2000, respectively. The increase was primarily due to a decrease in cash paid for operating expenses. Net cash provided by operating activities was $2,581.7 million, $2,059.5 million and $1,916.6 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in 2000 was primarily due to an increase in customer and escrow deposit liabilities for Principal Bank compared to 1999. The increase in 1999 resulted primarily from an increase related to current and deferred income taxes compared to 1998.

Net cash used in investing activities was $1,750.4 million and $500.4 million for the three months ended March 31, 2001 and 2000, respectively. The increase in cash used was primarily due to an increase in net cash invested in available-for-sale securities during the period. Net cash used in investing activities was $1,217.7 million, $3,294.7 million

and $693.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. The decrease in cash used in 2000 was primarily due to a decrease in purchases of interests in subsidiaries in 2000 compared to 1999, primarily a result of the purchase of BT Financial Group in 1999. The increase in 1999 compared to 1998 resulted primarily from an increase in purchases of available-for-sale fixed maturities and purchases of interests in subsidiaries, primarily BT Financial Group.

Net cash provided by financing activities was $681.1 million for the three months ended March 31, 2001 and net cash used in financing activities was $112.5 million for the three months ended March 31, 2000. Net cash provided increased as a result of a positive inflow of net investment contract deposits. Net cash used in financing activities was $1,006.9 million, net cash provided by financing activities was $1,343.9 million and net cash used in financing activities was $1,308.7 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in cash used in 2000 compared to 1999 was primarily due to the change in net deposits related to investment contracts and due to a decrease in issuance of debt. The increase in cash provided in 1999 resulted primarily from issuance of debt, primarily in connection with the acquisition of BT Financial Group in August 1999, and an increase in net deposits related to investment contract deposits compared to 1998.

Cash flow requirements are also supported by committed lines of credit totaling $600.0 million, of which there were no outstanding balances as of March 31, 2001. The lines of credit are available to provide backup of the commercial paper programs.

Given the historical cash flow of our subsidiaries and the financial results of these subsidiaries, we believe that the cash flow from our consolidated operating activities over the next year will provide sufficient liquidity for our operations, as well as to satisfy interest payments and any payments related to debt servicing.

PRINCIPAL LIFE

Historically, the principal cash flow sources for Principal Life have been premiums from life and health insurance products, pension and annuity deposits, asset management fee revenues, administrative services fee revenues, income from investments, proceeds from the sales or maturity of investments and short-term borrowings. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payment of dividends to policyholders, payments in connection with investments acquired, payments made to acquire subsidiaries, payment of dividends to parent, and payments relating to policy and contract surrenders, withdrawals, policy loans, interest expense and repayment of short-term borrowings.

Principal Life maintains investment strategies generally intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer lives, such as life insurance and full-service payout pension products, are matched with assets having similar estimated lives such as mortgage loans, long-term bonds and private placement bonds. Shorter-term liabilities are matched with investments such as short and medium-term fixed maturities. In addition, highly liquid, high quality short-term U.S. Treasury securities and other liquid investment grade fixed maturities are held to fund anticipated operating expenses, surrenders, withdrawals and development and maintenance expenses associated with new products and technologies. See "-- Quantitative and Qualitative Information about Market Risk -- Interest Rate Risk" for a discussion of duration matching.

Our privately placed fixed maturity securities, commercial mortgage loans and real estate investments are generally less liquid than our publicly traded fixed maturity securities. As of March 31, 2001, these asset classes represented approximately 53% of the value of our consolidated invested assets.

Life insurance companies generally produce a positive cash flow from operations, as measured by the amount by which cash inflows are adequate to meet benefit obligations to policyholders and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing and acquiring new business. It is important to match the investment portfolio maturities to the cash flow demands of the type of annuity, investment or insurance product being provided. Principal Life continuously monitors benefits, surrenders and maturities to provide projections of future cash requirements. As part of this monitoring process, Principal Life performs cash flow testing of many of its assets and liabilities under various scenarios to evaluate the adequacy of reserves. In developing its investment strategy, Principal Life establishes a level of cash and securities which, combined with expected net cash inflows from operations, maturities of fixed maturity investments and principal payments on mortgage-backed securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and the claims paying ability and financial strength ratings of Principal Life.

Principal Life takes into account asset-liability management considerations in the product development and design process. Contract terms of 97% of Principal Life's interest-sensitive products as of December 31, 2000 include surrender and withdrawal provisions which mitigate the risk of losses due to early withdrawals. These provisions generally do one or more of the following: limit the amount of penalty-free withdrawals, limit the circumstances under which withdrawals are permitted, or assess a surrender charge or market value adjustment relating to the underlying

assets. The market value adjustment feature in Principal Life's fixed annuity products adjusts the surrender value of a contract in the event of surrender prior to the end of the contract period to protect Principal Life against losses due to higher interest rates at the time of surrender. The following table summarizes Principal Life's statutory liabilities for annuities and deposit funds by their contractual withdrawal provisions:

	AS OF DECEMBER 31, 2000 ($ IN MILLIONS)
STATUTORY LIABILITIES FOR ANNUITIES AND DEPOSIT FUNDS:	
Not subject to discretionary withdrawal	$17,813.8
Subject to discretionary withdrawal with adjustments:	
Specified surrender charges at book value less surrender charge of 5% or more	670.9
Market value adjustments	40,535.0
Subtotal	59,019.7
Subject to discretionary withdrawal without adjustments	2,138.1
Total	$61,157.8

INTERNATIONAL OPERATIONS

BT Financial Group produced a positive cash flow from operations in 2000, which is expected to continue to be maintained. Principal cash flow sources for BT Financial Group have been fee revenues and interest spread earned on margin lending operations. Cash outflows consist primarily of operating expenses including interest payments on debt issued in connection with the acquisition of BT Financial Group.

Principal International is in a development or entry stage in several countries. Historically, principal cash flow sources for Principal International have been pension and annuity deposits, asset management fee revenues, administrative services fee revenues, insurance premiums, income from investments, proceeds from the sales or maturity of investments and short-term borrowings. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payments in connection with investments acquired, and payments relating to policy and contract surrenders, withdrawals, policy loans, interest expense and repayment of short-term borrowings.

Principal International maintains investment strategies generally intended to provide adequate funds to pay benefits without forced sales of investments. Highly liquid, high quality short-term government securities and other liquid investment grade fixed maturities are held to fund anticipated operating cash outflows and development and maintenance expenses associated with new products and technologies.

Principal International's operating companies monitor benefits, surrenders and maturities to provide projections of future cash requirements. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by factors such as the interest rate environment.

Our Brazilian and Chilean operations produced a positive cash flow from operations in the first three months of 2001 and in 2000. These cash flows have been historically maintained at the local country level for strategic expansion purposes. Our other international operations have required infusions of capital of $7.5 million for the three months ended March 31, 2001 and $75.8 million, $126.8 million and $219.7 million for the years ended December 31, 2000, 1999 and 1998, respectively, to meet the cash flow requirements of those operations or to fund acquisitions. These other operations are primarily in the start-up stage or are expanding in the short term. Our capital funding of these operations is consistent with our long term strategy to establish viable companies that can sustain future growth from internally generated sources.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

MARKET RISK EXPOSURES AND RISK MANAGEMENT

Market risk is the risk that we will incur losses due to adverse fluctuations in market rates and prices. Our primary market risk exposure is to changes in interest rates, although we also have exposures to changes in equity prices and foreign currency exchange rates.

The active management of market risk is an integral part of our operations. We manage our overall market risk exposure within established risk tolerance ranges by using the following approaches:

- rebalance our existing asset or liability portfolios;

- control the risk structure of newly acquired assets and liabilities; or

- use derivative instruments to modify the market risk characteristics of existing assets or liabilities or assets expected to be purchased.

INTEREST RATE RISK

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate risk stems largely from our substantial holdings of guaranteed fixed rate liabilities in our U.S. Asset Management and Accumulation segment.

We seek to earn returns on investments that enhance our ability to offer competitive rates and prices to customers while contributing to attractive and stable profits and long-term capital growth. Accordingly, our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations.

We manage the interest rate risk inherent in our assets relative to the interest rate risk inherent in our liabilities. One of the measures we use to quantify this exposure is duration. Duration measures the change in the fair value of assets and liabilities for given changes in interest rates. For example, if interest rates increase by a hypothetical 100 basis points, the fair value of an asset with a duration of 5 years is expected to decrease in value by approximately 5%.

To calculate duration, we project asset and liability cashflows. These cashflows are discounted to a net present value basis using a spot yield curve, which is a blend of the spot yield curves for each of the asset types in the portfolio. Duration is calculated by re-calculating these cashflows and redetermining the net present value based upon an alternative level of interest rates, and determining the percentage change in fair value.

As of March 31, 2001, the difference between the asset and liability durations on our primary duration managed portfolio was 0.02 years. This duration gap indicates that as of this date the sensitivity of the fair value of our assets to interest rate movements is greater than that of the fair value of our liabilities. Our goal is to minimize the duration gap. Currently, our guidelines dictate that total duration gaps between the asset and liability portfolios must be within 0.25 years. The value of the assets in this portfolio was $23,965.7 million as of March 31, 2001.

We also manage interest rate risk by employing a partial duration analysis. With this technique, the yield curve is dissected into various term components and a partial duration is calculated for each. Each partial duration represents the potential change in fair value of the asset or liability to interest rate shift in rates in the applicable component of the yield curve. We minimize potential volatility in the fair value of surplus of Principal Life as a result of changes in the yield curve by managing each partial duration gap between the assets and liabilities within established guidelines.

With respect to our primary duration managed portfolio, we use several methods to correct any potential total or partial duration gaps that are outside of our established risk tolerance ranges. We can rebalance the existing asset or liability portfolios or we can redirect new asset purchases until the asset portfolio is better aligned with the liabilities and our duration gaps are back within their limits. If a more expedient correction is desired, another method we use is forward interest rate swaps. These swaps are designed to move duration exposure from one specific point on the yield curve to another, and are an efficient way to quickly shift the partial and total duration profile of the asset portfolio so that duration gaps and hence interest rate risk is minimized.

For products such as whole life insurance, term life insurance and single premium deferred annuities, the liability cashflow is less predictable, and a duration-matching strategy is less reliable and manageable. We do, however, try to manage the duration of these portfolios. For these products, we manage interest rate risk based on a modeling process that considers the target average life, maturities, crediting rates and assumptions of policyholder behavior. As of March 31, 2001, the weighted-average difference between the asset and liability durations on these portfolios was 1.2 years. This duration gap indicates that as of this date the sensitivity of the fair value of our assets to interest rate movements is greater than that of the fair value of our liabilities. We attempt to monitor this duration gap consistent with our overall risk/reward tolerances. The value of the assets in these portfolios was $12,036.8 million as of March 31, 2001.

We also have a block of participating general account pension business that passes the actual investment performance of the assets to the customer. The investment strategy of this block is to maximize investment return to the customer on a "best efforts" basis, and there is little or no attempt to manage the duration of this portfolio since there is little or no interest rate risk. The value of the assets in these portfolios was $2,576.9 million as of March 31, 2001.

Using the assumptions and data in effect as of March 31, 2001, we estimate that a 100 basis point immediate, parallel increase in interest rates decreases the net fair value of our portfolio by $178.8 million. The following table details the estimated changes by risk management strategy:

RISK MANAGEMENT STRATEGY	AS OF MARCH 31, 2001 VALUE OF TOTAL ASSETS	NET FAIR VALUE CHANGE
	($ IN MILLIONS)	
Primary duration-managed	$23,965.7	$ (32.6)
Duration-monitored	12,036.8	(146.2)
Non duration-managed	2,576.9	--
Total	$38,579.4	$(178.8)

Our selection of a 100 basis point immediate, parallel increase or decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase or decrease does not represent our view of future market changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our portfolio exposures at a point in time and may not be representative of future market results. These exposures will change as a result of ongoing portfolio transactions in response to new business, management's assessment of changing market conditions and available investment opportunities.

We are also exposed to interest rate risk in our Mortgage Banking segment. We manage this risk by striving to balance our loan origination and loan servicing operations, the two of which are generally counter-cyclical. In addition, we use various financial instruments, including derivatives contracts, to manage the interest rate risk specifically related to committed loans in the pipeline and mortgage servicing rights. The overall objective of our interest rate risk management policies is to offset changes in the values of these items resulting from changes in interest rates. We do not speculate on the direction of interest rates in our management of interest rate risk.

We manage interest rate risk on our mortgage loan pipeline by buying and selling mortgage-backed securities in the forward markets, over-the-counter options on mortgage-backed securities, U.S. Treasury futures contracts and options on futures contracts. We also use interest rate floors, futures contracts, options on futures contracts, swaps and swaptions in hedging a portion of our portfolio of mortgage servicing rights from prepayment risk associated with changes in interest rates.

We measure pipeline interest rate risk exposure by adjusting the at-risk pipeline in light of the theoretical optionality of each applicant's rate/price commitment. The at-risk pipeline, which consists of closed loans and rate locks, is then refined at the product type level to express each product's sensitivity to changes in market interest rates in terms of a single current coupon MBS duration. Suitable hedges are selected and a similar methodology applied to this hedge position. We limit our risk exposure by requiring that the net position value not change by more than $10 million given an instantaneous change in the benchmark MBS price of +/-2.5%. This price sensitivity analysis is performed at least once daily. The value of the loans in the pipeline as of March 31, 2001 was $5.2 billion. Due to the impact of our hedging activities, we estimate that a 100 basis point immediate parallel increase in the interest rates decreases the March 31, 2001 net position value by less than $16.6 million.

The financial risk associated with our mortgage servicing operations is the risk that the market value of the servicing asset falls below its GAAP book value. To measure this risk, we analyze each servicing risk tranche's GAAP book value in relation to the then current market value for similar servicing rights. We perform this valuation using option-adjusted spread valuation techniques applied to each risk tranche. We produce tranche market values at least monthly.

The market value of the servicing asset declines as interest rates decrease due to possible mortgage loan servicing rights impairment that may result from increased current and projected future prepayment activity. The change in value of the servicing asset due to interest rate movements is reduced by the use of financial instruments, including derivative contracts, that increase in aggregate value when interest rates decline. We recently shifted our servicing hedge portfolio from U.S. Treasury related instruments to London Inter-Bank Offer Rate hedges, including swaps and swaptions. Based on values as of March 31, 2001, a 100 basis point parallel decrease in interest rates produces a $36 million decline in value of the servicing asset of our Mortgage Banking segment, due to the impact of these hedging vehicles and the current differences between current market values and GAAP book values.

CASH FLOW VOLATILITY. Cashflow volatility arises as a result of several factors. One is the inherent difficulty in perfectly matching the cashflows of new asset purchases with that of new liabilities. Another factor is the inherent cashflow volatility of some classes of assets and liabilities. In order to minimize cashflow volatility, we manage differences between expected asset and liability cashflows within pre-established guidelines.

We also seek to minimize cashflow volatility by restricting the portion of securities with redemption features held in our invested asset portfolio. These asset securities include redeemable corporate securities, mortgage-backed

securities or other assets with options that, if exercised, could alter the expected future cash inflows. In addition, we limit sales liabilities with features such as puts or other options that may change the cashflow profile of the liability portfolio.

DERIVATIVES. We use various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, Principal Only swaps, interest rate floors, swaptions, U.S. Treasury futures, Treasury rate guarantees and mortgage-backed forwards and options. We use interest rate futures contracts and mortgage-backed forwards to hedge changes in interest rates subsequent to the issuance of an insurance liability, such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps and Principal Only swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the interest rate characteristics of specific assets and liabilities as well as an entire portfolio. Occasionally, we will sell a callable liability or a liability with attributes similar to a call option. In these cases, we will use interest rate swaptions or similar products to hedge the risk of early liability payment thereby transforming the callable liability into a fixed term liability.

We also seek to reduce call or prepayment risk arising from changes in interest rates in individual investments. We limit our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer, and we require additional yield on these investments to compensate for the risk that the issuer will exercise such option. An example of an investment we limit because of the option risk is residential mortgage-backed securities. We assess option risk in all investments we make and, when we assume such risk, we seek to price for it accordingly to achieve an appropriate return on our investments.

In conjunction with the interest rate swaps, interest rate swaptions and other derivatives, we are exposed to counterparty risk, or the risk that counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- establishing exposure limits which take into account non-derivative exposure we have with the counterparty as well as derivative exposure;

- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;

- limiting exposure to AA- credit or better;

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

- daily monitoring of counterparty credit ratings.

All new derivative counterparties are approved by the investment committee. We believe the risk of incurring losses due to nonperformance by our counterparties is remote and that such losses, if any, would not be material. Futures contracts trade on organized exchanges and, therefore, effectively have no credit risk.

The table below shows the interest rate sensitivity of our derivatives measured in terms of fair value. These exposures will change as a result of ongoing portfolio and risk management activities.

	AS OF MARCH 31, 2001				
			FAIR VALUE (NO ACCRUED INTEREST)		
	NOTIONAL AMOUNT	WEIGHTED AVERAGE TERM (YEARS)	-100 BASIS POINT CHANGE	NO CHANGE	+100 BASIS POINT CHANGE
	($ IN MILLIONS)				
Interest rate swaps	$ 4,773.2	6.06(1)	$ (29.0)	$(18.2)	$(31.4)
Principal Only swaps	150.0	2.56(1)	13.3	(7.5)	(12.4)
Interest rate floors	3,200.0	5.25(2)	83.7	71.2	(39.0)
U.S. Treasury futures	255.3	0.25(3)	(11.5)	(0.7)	10.0
Swaptions	2,512.0	3.56(4)	64.7	79.0	(45.4)
Treasury rate guarantees	27.0	0.19(5)	(2.0)	--	2.2
Mortgage-backed forwards and options	5,951.7	0.17(5)	(148.2)	(11.2)	179.3
Total	$16,869.2		$ (29.0)	$112.6	$ 63.3

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(1) Based on maturity date of swap.
(2) Based on maturity date of floor.
(3) Based on maturity date.
(4) Based on option date of swaption.
(5) Based on settlement date.

We use U.S. Treasury futures to manage our over/under commitment position, and our position in these contracts changes daily.

DEBT ISSUED AND OUTSTANDING. As of March 31, 2001, the aggregate fair value of debt was $1,312.1 million. A 100 basis point, immediate, parallel decrease in interest rates would increase the fair value of debt by approximately $72.6 million.

	AS OF MARCH 31, 2001		
	FAIR VALUE (NO ACCRUED INTEREST)		
	-100 BASIS POINT CHANGE	NO CHANGE	+100 BASIS POINT CHANGE
	($ IN MILLIONS)		
7.95% notes payable, due 2004	$ 218.8	$ 212.4	$ 206.3
8.2% notes payable, due 2009	540.7	508.4	478.4
7.875% surplus notes payable, due 2024	199.5	184.4	169.3
8% surplus notes payable, due 2044	100.5	90.4	81.8
Non-recourse mortgages and notes payable	165.4	156.7	148.6
Other mortgages and notes payable	159.8	159.8	159.8
Total long-term debt	$1,384.7	$1,312.1	$1,244.2

EQUITY RISK

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in a particular common stock. As of March 31, 2001, the fair value of our equity securities was $618.6 million. A 10% decline in the value of the equity securities would result in an unrealized loss of $61.9 million.

We also have indirect equity risk exposure with respect to BT Financial Group margin lending operations. Under the terms of this financing arrangement, BT Financial Group margin lending operations allow retail clients and independent financial advisors on behalf of clients, within limits approved by senior management, to borrow funds from BT Financial Group to invest in an approved list of securities and mutual fund investments which serve as security for the loan. The risk of loan default increases as the value of the underlying securities declines. This risk is actively managed through the use of margin calls on loans when the underlying securities fall below established levels. Overall, the margin lending portfolio is limited to a ratio of borrowed funds to market value of securities of 60%. On November 30, 1999, BT Financial Group margin lending operations securitized its margin lending portfolio with Westpac Banking Corporation, an Australian bank. Under the terms of this financing, BT Financial Group margin lending operations are required to allocate capital equal to approximately 7% of the outstanding borrowed amount, as a cushion for loan defaults. As of March 31, 2001, the margin lending portfolio was $546.0 million, or A$1,118.2 million, while the ratio of borrowed funds to market value of securities was 44%, below that of the maximum allowed.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from our international operations and foreign currency-denominated funding agreements issued to non-qualified institutional investors in the international market. The notional amount of our currency swap agreements associated with foreign-denominated liabilities as of March 31, 2001 was $3,061.2 million. We also have fixed maturity securities that are denominated in foreign currencies. However, we use derivatives to hedge the foreign currency risk, both interest payments and the final maturity payment, of these funding agreements and securities. As of March 31, 2001, the fair value of our foreign currency denominated fixed maturity securities was $406.5 million. We use currency swap agreements of the same currency to hedge the foreign currency exchange risk related to these investments. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturity securities as of March 31, 2001 was $428.7 million. With regard to our international operations, we attempt to do as much of our business as possible in the functional currency of the country of operation. At times, however, we are unable to do so, and in these cases, we use foreign exchange derivatives to hedge the resulting risks.

Additionally, we utilize foreign currency swaps related to $665.0 million of private notes issued in connection with our acquisition of BT Financial Group. Currently the interest payments related to these notes are serviced through operating cash flows of our Australian operations. By utilizing the foreign currency and interest rate swaps, the impact of Australian dollar and U.S. dollar exchange rate fluctuations have a minimal effect on our ability to rely on the cash flows of our Australian operations to service the interest and principal payments related to the notes.

We estimate that as of March 31, 2001, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no change to the net fair value of our foreign currency denominated instruments identified above, including the currency swap agreements. The selection of a 10% immediate

unfavorable change in all currency exchange rates should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. Our largest individual currency exposure is to fluctuations between the Australian dollar and the U.S. dollar.

EFFECTS OF INFLATION

We do not believe that inflation, in the United States or in the other countries in which we operate, has had a material effect on our consolidated operations over the past five years. In the future, however, we may be affected by inflation to the extent it causes interest rates to rise. See "Risk Factors -- Our efforts to reduce the impact of interest rate changes on our profitability and surplus may not be effective".

BUSINESS

The Principal Financial Group is a leading provider of retirement savings, investment and insurance products and services, with $113.0 billion in assets under management and approximately thirteen million customers worldwide as of March 31, 2001. Our U.S. and international operations concentrate primarily on asset management and accumulation. In addition, we offer a broad range of individual life and disability insurance, group life and health insurance, and residential mortgage loan origination and servicing in the United States.

We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the United States, with a concentration on small and medium-sized businesses, which we define as businesses with less than 1,000 employees. We place a particular emphasis on businesses with less than 500 employees. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans and non-qualified executive benefit plans. We also offer annuities, mutual funds and bank products and services to the employees of our business customers and other individuals.

We provided services to more 401(k) plans in the United States in 2000 than any other bank, mutual fund or insurance company, according to surveys conducted by CFO magazine. From 1998 to 2000, our 401(k) assets under management increased 20% and our plan participants increased 8%. Within the 401(k) market for businesses with less than 500 employees, we had the leading market share in 1999 based on number of plans (9.7%), number of participants (14.1%) and assets under management (7.2%), according to the Spectrem Group. We believe that the 401(k) market has strong growth potential. The Spectrem Group projects that assets under all 401(k) plans in the United States will grow at a compound annual rate of 13.5%, reaching $2.6 trillion in plan assets by 2004. The small and medium-sized business market remains under-penetrated with only 15% of U.S. businesses with less than 500 employees offering a 401(k) plan in 1999. Accordingly, we believe that we are uniquely positioned to capitalize on the growth opportunities in the 401(k) plan and other defined contribution pension plan markets in the United States and internationally.

Principal Capital Management, our U.S.-based asset manager, provides asset management services to our U.S. asset accumulation businesses and third-party institutional clients, as well as our other U.S.-based segments. We established Principal Capital Management in 1999 to consolidate our extensive investment management expertise and to focus on marketing our asset management services to third-party institutional clients. We believe that Principal Capital Management is well-positioned to compete in this third-party institutional market through its expertise gained from managing a significant percentage of the assets originating from our U.S. asset accumulation operations. As of March 31, 2001, Principal Capital Management managed $81.8 billion in assets, of which $6.1 billion, or 7%, represented assets managed directly for third-party institutional clients.

Our acquisition of BT Financial Group in 1999 was a central element in the expansion of our international asset management and accumulation businesses. As of March 31, 2001, BT Financial Group was the fourth largest asset manager in Australia according to ASSIRT. As of March 31, 2001, BT Financial Group had accumulated $22.2 billion of assets under management and provided investment advisory services to $21.0 billion in assets. We believe that the mandated retirement savings system in Australia, called superannuation, and BT Financial Group's strong market position, together with the expertise we have developed in the U.S. defined contribution pension plan market, should provide for growth in our assets under management in Australia. BT Financial Group and Principal Capital Management together enhance our ability to compete in global asset management.

The activities of Principal International reflect our efforts to capitalize on the trend toward private sector defined contribution pension systems. We believe that this trend offers significant potential for future growth. We also believe that the expertise we have developed in serving the U.S. pension plan market enables us to take advantage of these opportunities. Through Principal International, we offer retirement products and services, annuities, mutual funds and life insurance. We operate through subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong and joint ventures in Brazil, Japan and India.

Our Life and Health Insurance segment offers individual life and disability insurance as well as group life and health insurance throughout the United States. Our individual life and disability insurance business served approximately 750,000 policyholders with $80.8 billion of life insurance in force as of March 31, 2001. Our individual insurance products include interest-sensitive life, traditional life and disability insurance. Our group insurance business served approximately 82,000 employers covering approximately 5.0 million members and had $71.5 billion of group life insurance in force as of March 31, 2001. Our group insurance products include life, disability, medical, dental and vision insurance, and administrative services.

Our Mortgage Banking segment engages in originating, purchasing, selling and servicing residential mortgage loans in the United States. We service a majority of the loans that we originate. We originated or purchased $8.3 billion in new mortgage loans for the year ended December 31, 2000 and serviced a portfolio of $57.3 billion of mortgage loans as of March 31, 2001. Residential mortgages represent a component of our overall portfolio of market-driven financial products and services.

ASSETS UNDER MANAGEMENT BY SEGMENT

For management and financial reporting purposes, we organize our businesses into four operating segments:

- U.S. Asset Management and Accumulation;

- International Asset Management and Accumulation;

- Life and Health Insurance; and

- Mortgage Banking.

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

One of the primary measures of our businesses is assets under management. We define "assets under management" as any assets on which we earn an asset-based fee or a spread. Fee-based products, such as mutual funds, provide no investment guarantee to the customer and provide us the potential for higher returns on our capital. Customer deposits in fee-based investments are either included in our separate accounts or do not appear on our balance sheet. The investment results of the separate account assets generally pass through to the separate account policyholders and contractholders, less management fees, so that we bear limited or no investment risk on such assets. Spread-based products, such as guaranteed investment contracts, provide a guarantee of return to customers for a specified period of time. The spread is the difference between the investment income we earn and the investment income we credit to our customers. We generally report customer deposits in spread-based investments on our balance sheet.

The table below shows by segment the amount of assets on which we earned an asset-based fee as compared to that on which we earned a spread for the periods indicated:

ASSETS UNDER MANAGEMENT
FEE-BASED/SPREAD-BASED COMPOSITION

	AS OF MARCH 31,			AS OF DECEMBER 31,								
	2001			2000			1999			1998(2)		
	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL
	($ IN BILLIONS)											
U.S. Asset Management and Accumulation	$45.5	$31.1	$ 76.6	$48.9	$29.2	$ 78.1	$46.9	$28.7	$ 75.6	$38.0	$29.2	$67.2
International Asset Management and Accumulation	22.5	2.6	25.1	25.6	2.8	28.4	28.4	2.2	30.6	0.3	0.9	1.2
Life and Health Insurance	1.9	7.5	9.4	2.1	7.2	9.3	2.0	6.7	8.7	1.3	6.9	8.2
Mortgage Banking(1)	--	0.4	0.4	--	0.2	0.2	--	0.5	0.5	--	0.7	0.7
Subtotal	$69.9	$41.6	111.5	$76.6	$39.4	116.0	$77.3	$38.1	115.4	$39.6	$37.7	77.3
Corporate and Other			1.5			1.5			1.2			3.1
Total			$113.0			$117.5			$116.6			$80.4

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(1) Excludes our mortgage loan servicing portfolio.

(2) Includes assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

Our primary focus is on asset management and accumulation, with particular emphasis on retirement products and services. We define "asset accumulation" as the sale of investment-oriented products and services for which we provide administrative services and/or offer investment choices from one or more asset managers. Our asset accumulation products and services include pensions, mutual funds, individual annuities and banking products. The fees our customers pay for these products and services are based on the asset balance of the product the customer purchases. We retain a portion of these fees in return for our administrative services and pay a portion to the asset manager, which may be us. We report the asset balances within our asset accumulation operations as assets under management if we earn an asset-based fee or a spread on those assets, regardless of whether our affiliated asset managers manage any of the underlying investment assets.

We define "asset management" as the provision of investment advisory services, including the screening, selection, purchase and ultimate sale of specific financial assets. We refer to the entity that provides these services as an "asset manager." The asset manager may be affiliated with us, such as Principal Capital Management and BT Financial Group, or may be an unaffiliated third-party.

We manage a large majority of assets originating from our asset accumulation operations. The table below shows the assets managed by asset manager:

ASSETS UNDER MANAGEMENT
BY ASSET MANAGER

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN BILLIONS)			
Principal Capital Management	$ 81.8	$ 83.2	$ 82.2	$77.1
BT Financial Group	21.0	24.3	28.2	--
Other Entities of the Principal Financial Group	4.0	3.7	2.6	1.9
Third-Party Asset Managers	6.2	6.3	3.6	1.4
Total	$113.0	$117.5	$116.6	$80.4

OUR STRATEGY

Our goal is to enhance stockholder value by pursuing the most attractive financial services opportunities consistent with the capabilities of our asset management and accumulation operations. We intend to accomplish this goal by increasing the growth and profitability of these businesses through the pursuit of the following primary strategic initiatives:

ACCELERATE THE GROWTH OF OUR U.S. ASSET ACCUMULATION BUSINESS. We intend to strengthen our existing distribution channels and expand into new distribution channels, further leverage our technology to achieve operating efficiencies, continue to expand the range of investment options and effectively cross-sell our products and services.

GROW OUR THIRD-PARTY INSTITUTIONAL ASSETS UNDER MANAGEMENT. We selectively target asset classes and customers in the United States, Australia and globally to capitalize on the specific strengths of Principal Capital Management and BT Financial Group. They jointly execute this strategy in their respective markets and through marketing offices in London, Hong Kong and Singapore.

INCREASE THE GROWTH AND PROFITABILITY OF PRINCIPAL INTERNATIONAL. We will continue to leverage our U.S. product expertise and operating platform to strengthen Principal International. We seek to accelerate the growth of our assets under management by capitalizing on the international trend toward privatization of public retirement pension systems. In addition, we intend to continue our progress in managing expenses.

In addition to these primary strategic initiatives, we have specific strategies within each of our operating segments, which are described in our operating segment discussions.

OPERATING PRINCIPLES

To effectively realize our strategic initiatives, we are implementing the following operating principles:

- operate a full-service platform to serve the needs of our customers;

- build on strong customer relationships;

- focus on our financial performance; and

- reinforce our culture.

OPERATE A FULL-SERVICE PLATFORM

We differentiate ourselves by operating a full-service platform to serve the wide array of our customers' needs by originating sales through our diverse distribution channels, offering a comprehensive portfolio of products and services, administering our products and services efficiently using information technology and managing a significant portion of the assets we accumulate as follows:

STRENGTHEN OUR DIVERSE DISTRIBUTION CHANNELS. We originate sales of our products and services through diverse distribution channels that include our retirement services sales representatives, financial representatives, insurance brokers, registered representatives and direct channels such as Principal Connection(SM). We also use other distribution sources particular to each business segment. We intend to strengthen and grow existing distribution channels and to expand into new distribution sources for sales of our products and services. In particular, we realigned our retirement services sales force to focus on new sales, targeted new distribution channels to sell our 401(k) products and services and created Principal Connection, our direct distribution channel to individuals.

OFFER A COMPREHENSIVE PORTFOLIO OF MARKET-DRIVEN PRODUCTS AND SERVICES. We provide a comprehensive portfolio of products and services in the markets in which we operate, as follows:

- We focus on providing full-service asset accumulation products to businesses. We continue to add new investment choices to increase the range of investment styles, asset classes and asset managers we offer to our customers. In addition to our pension products and services, we offer a comprehensive portfolio of life and health insurance products.

- Principal Capital Management and BT Financial Group offer a variety of asset classes and investment styles to institutional investors. In addition, we have developed a collaborative approach between these two firms, whereby the respective strengths and capabilities in asset classes of each investment operation are made available to our customers.

- For our individual customers, including employees of our business customers, we offer variable and fixed individual annuities, retail mutual funds, individual insurance products, residential mortgages and banking products.

USE TECHNOLOGY TO ENHANCE SALES, CUSTOMER SERVICE AND EFFICIENCY. We invest in information technology to achieve continued operational efficiency and to deliver enhanced value to our customers through timely, responsive service and competitive pricing.

- In December 2000, InformationWeek ranked us among the top 25 of the 100 most innovative companies in the United States in building profitable and successful customer relationships, and also profiled Impact401(k).com, our fully electronic 401(k) product through which the plan sponsor can handle the purchase, enrollment and administration of a 401(k) plan entirely through the Internet. We were one of only four financial services companies to achieve a top 25 ranking.

- We are a leader in the use of the Internet to service our customers in the United States. Through our Internet site, we offer customers a "consolidated view" displaying all the Principal Financial Group products they own, including pension plans, insurance policies, mutual funds, bank products and mortgage balance information. Our increasing use of the Internet to provide pension products and services allows us to lower our unit costs and more efficiently serve our customers. For example, the number of transactions processed through Principal Direct Connect, which allows plan sponsors to transfer retirement data via the Internet, has increased from approximately 23.0 million in 1999 to approximately 84.6 million in 2000. For the three months ended March 31, 2001, approximately 31.2 million transactions were processed through Principal Direct Connect.

- We seek to leverage technology developed for our U.S. operations into our international operations. We currently utilize a common client/server-based system in most countries, designed to incorporate our expertise from our U.S. systems.

PROVIDE ASSET MANAGEMENT FOR A SIGNIFICANT PORTION OF THE ASSETS WE ACCUMULATE. Principal Capital Management and BT Financial Group manage a large majority of the assets we accumulate. By offering investment choices that are managed by our affiliated asset managers, we enhance our ability to retain the asset management fees that would otherwise be paid to third-party asset managers.

BUILD ON STRONG CUSTOMER RELATIONSHIPS

We are committed to building on our strong customer relationships by providing products and services that respond to their needs and by increasing the global awareness of our brand.

RESPOND TO THE NEEDS OF OUR CUSTOMERS. One of our core values is customer focus, and we place priority on understanding and meeting their needs. We conduct ongoing market research to monitor customer needs and preferences. We offer a comprehensive portfolio of products and services, provide a wide range of choices of investment styles, asset classes and asset managers, and utilize technology built around the customer's needs and desires. We continue to expand our product portfolio to continue to meet the changing needs of our customers. We also use a variety of relationship-building tools, including financial counseling, a financial education magazine, investment education materials, account statements and our Internet website.

INCREASE GLOBAL AWARENESS OF OUR BRAND. We believe brand recognition is particularly important in establishing and maintaining strong relationships with our customers and distributors. Therefore, we have made a substantial effort to establish the "Edge" triangle as a widely recognized logo in the United States and the other countries in which we operate. To develop awareness of our brand, we have maintained high-visibility advertising and event sponsorships, such as the Olympics and the Super Bowl. For example, during the 2000 Olympic Summer Games, we launched a new advertising campaign, "we understand what you are working for," designed to enhance recognition and leverage our brand to attract new customers. The Mobius Advertising Awards honored us in February 2001 with its Mobius Award. We received a first-place award in the financial services category for our 2000 "Happy People" print advertising campaign.

FOCUS ON FINANCIAL PERFORMANCE

We have taken specific actions to improve our operating earnings over the last several years, and we intend to continue to focus each of our businesses to further improve financial performance. We reported record operating earnings for 2000, with an operating return on average equity of 10.5%. We believe our financial performance will further improve if we continue to:

- manage capital effectively;

- improve cost management; and

- actively manage our investment portfolio.

MANAGE CAPITAL EFFECTIVELY. We believe that effective management of capital is essential to creating stockholder value. This consists of assessing the near-term financial impact as well as the long-term attractiveness of each of our businesses. We have already taken the following initiatives:

- We increased the discipline in our capital allocation process. Our goal is to improve profitability by increasing our focus on, and capital allocation to, asset management and accumulation products and services which offer us a potential for higher returns on our capital, such as fee-based products.

- We exited under-performing and non-strategic businesses and markets, including: the HMO business; several other group medical insurance businesses; our retail securities brokerage operations, our pre-retirement asset accumulation business in Argentina, and our operations in Spain.

- We have focused our international operations and investments in countries that we believe offer the greatest long-term growth opportunities, favorable demographics and a trend toward private sector defined contribution pension systems. As a result, we operate through subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong, and joint ventures in Brazil, Japan and India.

IMPROVE COST MANAGEMENT. We are committed to improving profitability by actively managing our operating expenses. We seek to achieve further operating leverage through increased operating efficiencies. We have made significant investments in technology to enhance the efficiency of our operations, particularly in the area of customer service and transaction processing. For example, our annualized full-service pension transactions per U.S. employee rose from 11,926 in 1998 to 17,872 for the three months ended March 31, 2001.

ACTIVELY MANAGE OUR INVESTMENT PORTFOLIO. Over the past three years, we rebalanced our investment portfolio by reducing our exposure to equity securities and real estate. We reoriented the portfolio toward investments that produce higher current investment income, rather than those that produce long-term capital gains that had historically been the focus of our investment activities as a mutual life insurance company. In addition to reducing our portfolio risk profile, we will continue to manage our investment portfolio to achieve higher yields consistent with our risk management strategy.

REINFORCE OUR CULTURE

We are committed to strengthening our organization's performance-oriented culture. The following are three specific activities that support this objective:

- We have a new incentive compensation program for our senior management designed to align compensation with individual and company-wide performance measures. We refined our performance review program to increase individual accountability and better align individual and corporate goals toward profitable growth.

- We adopted a balanced scorecard for our employees to measure their performance from four perspectives: financial results; customer relations; internal process and learning and growth. Our balanced scorecard links performance in these areas to salary, establishes accountability, focuses employees on common goals and helps employees see how their contributions can affect our financial results.

- Upon demutualization, we intend to adopt a stock option plan designed to encourage broad-based employee ownership. We believe this plan will advance the interests of our stockholders by enhancing our ability to attract, retain and motivate individuals who make important contributions to our company. We also believe that employee equity ownership opportunities and performance-based incentives will closely align the interests of our employees with those of our stockholders.

SEGMENT OVERVIEW

The table below provides a summary of the markets targeted, the distribution channels used and the products and services offered by each of our operating segments:

U.S. ASSET MANAGEMENT AND ACCUMULATION

MARKETS	DISTRIBUTION	PRODUCTS/SERVICES
Asset Accumulation		
- Businesses, their employees and other individuals - Not-for-profit organizations - Large financial institutions and employers for our guaranteed investment contracts, funding agreements and institutional mutual funds	- Retirement services sales representatives - Institutional marketers - Affiliated financial representatives - Affiliated and unaffiliated registered representatives - Independent brokers - Principal Connection	- Pension - Full-service accumulation - Full-service payout - Investment-only - Administration-only - Mutual funds - Individual annuities - Banking
Principal Capital Management		
- Large U.S. corporate, private and Taft-Hartley pension funds - U.S. endowments and foundations - Sub-advisory relationships with non-affiliated financial institutions - Non-US institutions (in collaboration with BT Financial Group) - Real estate development - Securitization markets	- Institutional marketers - Consultants	- Institutional and retail money management in: - Domestic equities - International equities - Fixed income - Commercial real estate

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION

MARKETS	DISTRIBUTION	PRODUCTS/SERVICES
BT Financial Group		
- Corporate superannuation funds - Businesses, their employees and other individuals - Australian and non-Australian institutions - Financial intermediaries	- Consultants - Financial intermediaries (financial advisors, accountants and solicitors) - Institutional marketers - Direct distribution to customers	- Institutional and retail money management - Mutual funds - Corporate superannuation products - Processing and transaction services for financial planners, financial intermediaries and companies - Margin lending
Principal International		
- Businesses, their employees and other individuals	- Distribution appropriate to each country and market, for example: - Dedicated retirement services sales forces in Mexico and Hong Kong - Financial institutions in Brazil through the branches of Banco do Brasil - Unaffiliated brokers in Chile	- Retirement services - Brazil - Hong Kong - India - Indonesia - Japan - Mexico - Annuities and life insurance - Argentina - Chile - Mexico

LIFE AND HEALTH INSURANCE

MARKETS	DISTRIBUTION	PRODUCTS/SERVICES
Individual Life and Disability Insurance		
- Businesses, their employees and other individuals	- Affiliated financial representatives - Independent brokers - Affiliated and unaffiliated registered representatives - Disability sales representatives	- Individual insurance - Interest-sensitive life - Traditional life - Disability

LIFE AND HEALTH INSURANCE

MARKETS	DISTRIBUTION	PRODUCTS/SERVICES
Group Life and Health Insurance - - Businesses	- Group sales representatives - Rogers Benefit Group sales representatives - Non-medical sales representatives	- Group life - Group disability - Group medical - Group dental and vision - Fee-for-service

MORTGAGE BANKING

MARKETS	DISTRIBUTION	PRODUCTS/SERVICES
- - Individuals	- Correspondent lending institutions - Mortgage loan officers (retail origination) - Regional offices that work directly with approved mortgage loan brokers (wholesale) - Mortgage Direct	- Originate, purchase, sell and service prime credit quality, first-lien residential mortgage loans

U.S. ASSET MANAGEMENT AND ACCUMULATION SEGMENT

Our U.S. Asset Management and Accumulation segment consists of:

- asset accumulation operations which provide retirement savings and related investment products and services to businesses, their employees and other individuals; and

- Principal Capital Management, our U.S.-based asset manager.

Our U.S. Asset Management and Accumulation segment contributed 44%, 41%, 42% and 38% of our total operating revenues and 51%, 57%, 75% and 89% of our total operating earnings for the three months ended March 31, 2001, and the years ended December 31, 2000, 1999 and 1998, respectively.

The table below shows the operating revenues, operating earnings, assets and assets under management of our U.S. Asset Management and Accumulation segment for the periods indicated:

U.S. ASSET MANAGEMENT AND ACCUMULATION
SELECTED FINANCIAL HIGHLIGHTS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999		1998(4)	
	($ IN MILLIONS)							
OPERATING REVENUES(1)								
U.S. Asset Accumulation	$ 977.0	96%	$ 3,398.1	96%	$ 3,348.1	96%	$ 2,933.1	100%
Principal Capital Management	48.2	5	174.2	5	156.6	5	--	--
Intra-segment eliminations(2)	(9.5)	(1)	(38.4)	(1)	(32.1)	(1)	--	--
Total	$ 1,015.7	100%	$ 3,533.9	100%	$ 3,472.6	100%	$ 2,933.1	100%
OPERATING EARNINGS:								
U.S. Asset Accumulation	$ 79.2	89%	$ 317.6	89%	$ 321.2	90%	$ 238.4	100%
Principal Capital Management	9.6	11	39.0	11	35.4	10	--	--
Total	$ 88.8	100%	$ 356.6	100%	$ 356.6	100%	$ 238.4	100%
ASSETS:								
U.S. Asset Accumulation	$63,176.2	98%	$64,883.9	99%	$64,410.4	99%	$58,701.5	100%
Principal Capital Management	968.4	2	912.0	1	686.0	1	--	--
Total	$64,144.6	100%	$65,795.9	100%	$65,096.4	100%	$58,701.5	100%
ASSETS UNDER MANAGEMENT:								
($ in billions)								
U.S. Asset Accumulation	$ 69.6	91%	$ 71.0	91%	$ 70.3	93%	$ 63.5	94%
Principal Capital Management(3)	7.0	9	7.1	9	5.3	7	3.7	6
Total	$ 76.6	100%	$ 78.1	100%	$ 75.6	100%	$ 67.2	100%

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(1) Excludes net realized capital gains and their impact on recognition of front-end fee revenues.

(2) Includes eliminations of amounts related to U.S. asset management fee revenues received from our U.S. asset accumulation operations.

(3) Represents $6.1 billion, $6.3 billion, $4.7 billion and $3.5 billion of assets from third-party clients as of March 31, 2001 and as of December 31, 2000, 1999 and 1998, respectively, with the remainder representing assets supporting other Principal Capital Management activities. Assets accumulated by other affiliates are shown under the business which accumulated the assets.

(4) Includes assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

U.S. ASSET ACCUMULATION

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

- To businesses of all sizes, we offer products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans and non-qualified executive benefit plans. For more basic needs, we offer our mutual funds as a funding vehicle for SIMPLE IRA, payroll deduction, 401(k) and 403(b) plans;

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

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

We organize our U.S. asset accumulation operations in the following product and service categories:

- pension;

- mutual funds;

- individual annuities; and

- Principal Bank.

We further group our pension products and services into four categories:

- full-service accumulation;

- full-service payout;

- investment-only; and

- administration-only.

The table below shows the operating revenues for our U.S. asset accumulation operations for the periods indicated:

U.S. ASSET ACCUMULATION
OPERATING REVENUES

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Pension				
Full-service Accumulation	$269.1	$1,168.1	$1,178.2	$1,185.8
Full-service Payout	357.7	920.6	929.0	643.6
Investment-Only	244.3	881.7	833.8	715.9
Administration-Only	9.8	42.3	39.3	36.8
Mutual Funds	29.5	108.7	95.4	83.5
Individual Annuities	68.0	267.5	270.2	267.2
Principal Bank	3.9	9.2	2.2	0.3
Eliminations	(5.3)	--	--	--
U.S. Asset Accumulation	$977.0	$3,398.1	$3,348.1	$2,933.1

The table below breaks down the assets under management for our U.S. asset accumulation operations between those derived from fee-based products and those derived from spread-based products for the periods indicated:

U.S. ASSET ACCUMULATION
ASSETS UNDER MANAGEMENT(1)
FEE-BASED/SPREAD-BASED COMPOSITION

	AS OF MARCH 31,			AS OF DECEMBER 31,								
	2001			2000			1999			1998		
	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL
	($ IN BILLIONS)											
Pension	$33.2	$27.4	$60.6	$36.0	$25.7	$61.7	$35.7	$25.6	$61.3	$29.3	$25.9	$55.2
Mutual Funds	3.6	--	3.6	3.9	--	3.9	4.1	--	4.1	3.7	--	3.7
Individual Annuities	2.2	2.5	4.7	2.4	2.5	4.9	2.3	2.5	4.8	1.5	3.1	4.6
Principal Bank	0.3	0.4	0.7	0.2	0.3	0.5	--	0.1	0.1	--	--	--
U.S. Asset Accumulation	$39.3	$30.3	$69.6	$42.5	$28.5	$71.0	$42.1	$28.2	$70.3	$34.5	$29.0	$63.5

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(1) Assets under management are credited to the operations that accumulated the assets.

The table below shows the asset flow summary for our U.S. asset accumulation operations for the periods indicated:

U.S. ASSET ACCUMULATION
ASSET FLOW SUMMARY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	1999
	($ IN BILLIONS)		
Assets Under Management, beginning of period	$ 71.0	$ 70.3	$ 63.5
Deposits	5.1	14.6	14.7
Withdrawals	(3.5)	(14.3)	(11.9)
Investment Performance	(3.1)	1.0	5.6
Other	0.1	(0.6)	(1.6)
Assets Under Management, end of period	$ 69.6	$ 71.0	$ 70.3

The table below illustrates the various distribution channels used by our U.S. asset accumulation operations:

U.S. ASSET ACCUMULATION
DISTRIBUTION

	RETIREMENT SERVICES SALES REPRESENT-ATIVES	AFFILIATED FINANCIAL REPRESENT-ATIVES	REGISTERED REPRESENT-ATIVES	INDEPENDENT BROKERS	PRINCIPAL CONNECTION	INTERNET	BANKS
Pension	X	X	X	X	X	X	
Mutual Funds	X	X	X	X	X		
Individual Annuities		X		X	X		X
Principal Bank	X	X	X		X	X	

STRATEGY

Our goal is to enhance our position as a leading provider of asset accumulation products and services to businesses in the United States, particularly small and medium-sized businesses. To achieve this goal, we are pursuing the following strategic initiatives:

ACCELERATE THE GROWTH OF OUR U.S. ASSET ACCUMULATION OPERATIONS BY LEVERAGING OUR STRENGTH IN PROVIDING RETIREMENT SERVICES TO SMALL AND MEDIUM-SIZED BUSINESSES. Our current success is built on our strong position in the defined contribution pension plan market, in particular the 401(k) market, to which we provided services to more 401(k) plans than any other bank, mutual fund or insurance company in 1999.

In particular, we have taken the following actions to achieve continued leadership and growth in this market:

Strengthen our distribution channels. We are committed to building on our existing distribution channels, as well as expanding into new distribution channels:

- We have increased the focus of our retirement services sales representatives on new sales of pension products. We have shifted the responsibility for servicing our customers from our retirement services sales representatives to a dedicated customer service staff and centralized many of the administrative functions related to our pension products in regional market centers. In addition, we now compensate our retirement services sales representatives with a greater emphasis on new sales of products instead of renewals of existing contracts.

- We have also targeted new distribution channels for sales of our products and services, including third-party administrators, certified public accountants, registered investment advisors, registered representatives of other broker-dealers and direct sales through the Internet. For example, we have introduced a new 401(k) product, Principal Advantage, funded by mutual funds. Principal Advantage is targeted at non-affiliated distribution channels such as registered investment advisors and broker-dealers. We have also introduced Impact401k.com, our self-service Internet site. This pension product is targeted at smaller businesses that seek a low cost product, as well as businesses of any size that prefer to handle all administrative activities through the Internet.

Provide customers with new investment choices. We added new investment choices that increased the range of investment styles, asset classes and asset managers of our offerings. These additional choices complement those offered by Principal Capital Management. We also offer self-directed brokerage accounts to 401(k) plan participants.

Continue to use technology to enhance sales, customer service and efficiency. Our increasing use of the Internet as a tool to give plan sponsors and plan participants access to information and the ability to administer their defined contribution plans has resulted in significant productivity gains. We have undertaken the following technology initiatives to allow us to better serve the small and medium-sized business market and to enhance the quality and efficiency of our U.S. pension operations:

- Since its inception in 1998, Principal Direct Connect has become a preferred means for our pension plan sponsors to transfer retirement data via the Internet and to execute transactions online. The number of transactions processed through Principal Direct Connect has increased from approximately 23.0 million in 1999 to approximately 84.6 million in 2000. For the three months ended March 31, 2001, approximately 31.2 million transactions were processed through Direct Connect;

- In 1998, we developed a customer workflow and processing system, Express Processing(SM), to support our full-service pension plan administration. This technology enables us to achieve significant efficiencies by automatically moving workflow to (1) employees with the correct skill-set to efficiently process the work and (2) any of five administration facilities in the United States with the greatest capacity;

- We have structured the "Retirement Service Center" portion of our Internet website as a full-service center through which plan sponsors and plan participants can access their complete plan information. During 2000, participants made approximately 7.7 million visits to our Retirement Service Center, resulting in approximately 5.9 million electronic transactions. For the three months ended March 31, 2001, participants made approximately 2.2 million visits, resulting in approximately 1.9 million electronic transactions; and

- In April 2000, we launched what we believe is one of the first fully electronic 401(k) products, Impact401k.com. Through Impact401k.com, the plan sponsor can handle the purchase, enrollment and administration of a 401(k) plan entirely through the Internet without use of paper forms, the mail or the administrative assistance of our employees.

ENHANCE OUR ASSET RETENTION AND CROSS-SELLING. In 1997, we created Principal Connection, a direct response distribution channel for retail financial services products to individuals. Principal Connection's services are available over the phone, on the Internet or by mail. As of March 31, 2001, Principal Connection had 48 professionally licensed sales counselors trained to sell our products, answer questions regarding the customer's existing financial product choices and help the customer meet specific financial needs. Through Principal Connection, we seek to retain a significant portion of the assets that pension plan participants normally roll over into a different accumulation or payout product upon retirement or termination of employment. Of the $1.2 billion of assets eligible for rollover for the three months ended March 31, 2001, we retained $0.5 billion, or 42%, up from 30% in 1996. Through Principal Connection, we also seek to cross-sell our products and services to pension plan participants and banking and mortgage banking customers.

MAINTAIN OUR POSITION IN THE INVESTMENT-ONLY PENSION MARKET. We have been a long-time participant in the investment-only pension market, which emphasizes the sale of guaranteed investment contracts, funding agreements and other investment-only products. We have capitalized on our strong claims paying and financial strength ratings, investment advisory expertise and asset-liability management expertise we offer to customers seeking investment-only pension services. We intend to remain a participant in this market to an extent consistent with our expected returns.

IMPROVE OUR POSITION IN THE PENSION MARKET FOR LARGER EMPLOYERS. We have an advantage over many of our competitors in the larger employer pension market since we offer both defined benefit and defined contribution plan services. Many large employers offer both defined benefit and defined contribution plans to their employees and prefer pension services providers that deliver consolidated services to both plans. We are currently expanding the scope of our services to offer:

- employer-customized websites;

- a more flexible billing process;

- consulting services to existing retirement plan customers involved in mergers and acquisitions; and

- customized service through regional customer relations managers dedicated to serving large customers.

PENSION

We offer a wide variety of investment and administrative products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans and non-qualified executive benefit plans. A 403(b) plan is a plan described in section 403(b) of the Internal Revenue Code that provides retirement benefits for employees of tax exempt organizations and public schools.

PENSION SERVICES

We provide products and services responding to a broad range of employer-sponsored pension plan needs. We offer administrative and investment services, which are both available on a stand-alone basis or can be combined according to the various needs of our customers.

ADMINISTRATIVE SERVICES. We believe that our ability to minimize the plan sponsor's administrative tasks has contributed to our success, particularly among small and medium-sized businesses. We differentiate ourselves from our competitors by providing every plan administrative service that is generally required or desired by a pension plan sponsor, regardless of the type or size of the plan.

The table below describes the primary administrative services that we offer to both plan sponsors and plan participants in defined contribution plans and defined benefit plans, as of March 31, 2001:

	SERVICES OFFERED TO PLAN SPONSORS	SERVICES OFFERED TO PLAN PARTICIPANTS
DEFINED CONTRIBUTION PLANS	- Government compliance and documentation - Fund accounting	- Account recordkeeping - Education and reporting - Phone center - Internet access and transaction capabilities - Voice response system - Benefit planning and benefit distribution
DEFINED BENEFIT PLANS	- Actuarial valuation services - Government compliance and documentation - Fund accounting	- Benefit determination and benefit distribution - Education and reporting - Phone center - Internet access and transaction capabilities

INVESTMENT SERVICES. We provide a full range of guaranteed investment contracts, money market, equity, fixed income, balanced, indexed and real estate investment options to our customers. We provide these services through our affiliated asset managers, Principal Capital Management and BT Financial Group, and through third-party asset managers. As of March 31, 2001, we had approximately 220 investment options available, including U.S. and international fixed income and equity investment options. Our investment options are either in the form of a separate account or a mutual fund.

PENSION PRODUCTS

We group our pension products into four categories:

- full-service accumulation;

- full-service payout;

- investment-only; and

- administration-only.

Our full-service accumulation products and our full-service payout products feature both administrative services and investment services. We focus primarily on our full-service accumulation and full-service payout products, which together represented 62% of our pension gross new deposits under management for the three months ended March 31, 2001, and 74% of our pension assets under management as of March 31, 2001.

The tables below show, by product category, our pension assets under management, pension asset flow summary and our pension gross new deposits under management for the periods indicated:

U.S. ASSET ACCUMULATION
PENSION ASSETS UNDER MANAGEMENT

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN BILLIONS)			
Full-service Accumulation	$39.7	$42.0	$43.3	$38.5
Full-service Payout	4.9	4.5	4.3	3.9
Investment-Only	16.0	15.2	13.7	12.8
Administration-Only	--	--	--	--
Total	$60.6	$61.7	$61.3	$55.2

U.S. ASSET ACCUMULATION
PENSION ASSET FLOW SUMMARY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	1999
	($ IN BILLIONS)		
Assets Under Management, beginning of period	$61.7	$61.3	$55.2
Deposits	4.5	12.2	12.9
Withdrawals	(3.1)	(12.4)	(10.2)
Investment Performance	(2.5)	0.9	5.4
Other	--	(0.3)	(2.0)
Assets Under Management, end of period	$60.6	$61.7	$61.3

U.S. ASSET ACCUMULATION
PENSION GROSS NEW DEPOSITS UNDER MANAGEMENT

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
	($ IN BILLIONS)			
Full-service Accumulation	$2.6	$ 8.1	$ 8.2	$ 7.5
Full-service Payout	0.2	0.5	0.6	0.3
Investment-Only	1.7	3.6	4.1	3.4
Administration-Only	--	--	--	--
Total	$4.5	$12.2	$12.9	$11.2

FULL-SERVICE ACCUMULATION. Full-service accumulation products respond to the needs of plan sponsors seeking both administrative and investment services for defined contribution plans or defined benefit plans. The investment component of our defined contribution plans may be in the form of a group annuity contract or a mutual fund. The investment component of our defined benefit plans is available only in the form of a group annuity contract.

As of March 31, 2001, we provided full-service accumulation products to 33,493 defined contribution pension plans, of which 26,576 were 401(k) plans, covering 2.4 million plan participants, and to 2,441 defined benefit pension plans, covering 198,056 plan participants. As of March 31, 2001, approximately 93% of our pension assets under management were managed by Principal Capital Management or BT Financial Group. Third-party asset managers provide asset management services with respect to the remainder of the assets.

Prior to 2001, annuities were the only product through which we delivered both administrative and investment services to our defined contribution plan and defined benefit plan customers. Under U.S. federal securities laws, neither the annuity nor the underlying investment options are required to be registered with the SEC. Beginning January 2001, we began to offer administrative and investment services to defined contribution plan customers through Principal Advantage, a new 401(k) product based on our recently expanded mutual fund, Principal Investors Fund. We offer funds covering the full range of stable value, equity, fixed income and non-domestic investment options managed by our affiliated asset managers, Principal Capital Management and BT Financial Group, as well as third-party asset managers.

FULL-SERVICE PAYOUT. Full-service payout products respond to the needs of pension plan participants who, upon retirement or termination of their employment, leave their pension plans, and who seek both administrative and investment services for distributions from the plans they are leaving. Plan participants who seek these services include those departing pension plans we service, as well as pension plans other providers service. We offer both flexible income option products and single premium group annuities. Flexible income option products allow the customer to control the rate of distribution, or payout, and provide limited performance guarantees. Single premium group annuities are immediate or deferred annuities that provide a current or future specific income amount, fully guaranteed by us. Both products are available to defined contribution and defined benefit plan participants. For both products, we make regular payments to individuals, invest the underlying assets on their behalf and provide tax reporting to them.

Single premium group annuities are traditionally used in conjunction with defined benefit plans, particularly those where the plan is being terminated. In such instances, the plan sponsor transfers all its obligations under the plan to an insurer by paying a single premium. Increasingly, these products are purchased by defined contribution plan participants who reach retirement age. Plan sponsors restrict their purchases to insurance companies with superior or

excellent financial quality ratings because the Department of Labor has mandated that annuities be purchased only from the "safest available" insurer. We believe that our strong financial strength ratings position us well to compete in this market. See "-- Ratings" below. In 2000, we received $498.3 million of single premium group annuities annualized new deposits, ranking us second in the United States according to LIMRA International, Inc.'s 2000 U.S. Institutional Pension Sales and Assets report.

Deposits to full-service payout products are in the form of single payments. As a result, the level of new deposits can fluctuate depending on the number of retirements and large-scale annuity sales in a particular fiscal quarter. Assets under management relating to single premium group annuities generate a spread between the investment income earned by us and the amount credited to the customer. Assets under management relating to flexible income option products may generate either spread or fee revenue depending on the investment options elected by the customer.

INVESTMENT-ONLY. The three primary products for which we provide investment-only services are: (1) guaranteed investment contracts; (2) funding agreements; and (3) other investment-only products.

Guaranteed investment contracts and funding agreements pay a specified rate of return. The rate of return can be a floating rate based on an external market index or a fixed rate. Some of these investment-only products provide a feature which permits plan participants to redeem or transfer funds in their accounts at book value during the term of the contract. All of our investment-only products contain provisions limiting early surrenders, including penalties for early surrenders and minimum notice requirements. Put provisions give customers the option to terminate a contract prior to maturity, provided they give us a minimum notice period.

The table below breaks down by notice period the put provisions of our guaranteed investment contracts and funding agreements:

U.S. ASSET ACCUMULATION
PENSION GUARANTEED INVESTMENT CONTRACTS AND FUNDING AGREEMENTS
GAAP RESERVES PUT PROVISIONS CHARACTERISTICS
AS OF MARCH 31, 2001

	GUARANTEED INVESTMENT CONTRACTS	FUNDING AGREEMENTS
	($ IN MILLIONS)	
INVESTMENT-ONLY:		
Less than 30 days' notice	$ --	$ --
30 to 89 days' notice	288.7	100.4
90 to 179 days' notice	458.4	226.1
More than 179 days' notice	--	150.7
No active put provision(1)	421.6	--
No put provision	8,451.7	3,572.0
FULL-SERVICE ACCUMULATION:		
No put provision	4,968.6	--
Total	$14,589.0	$4,049.2

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(1) Contracts currently under an initial lock-out period but which will become putable with 90 days' notice at some time in the future.

Deposits to investment-only products are predominantly in the form of single payments. As a result, the level of new deposits can fluctuate in a particular fiscal quarter. Assets invested in guaranteed investment contracts and funding agreements generate a spread between the investment income earned by us and the amount credited to the customer. Our other investment-only products consist of separate accounts invested in either equities or fixed income instruments.

ADMINISTRATION-ONLY. We provide fee-based administrative services for defined contribution plans, including 401(k) plans, where a third-party provides the investment choices. As of March 31, 2001, we provided administration-only services to approximately 3,900 defined contribution plans covering approximately 196,000 employees. In addition to defined contribution plans, we currently provide administration-only services to approximately 289,000 individual retirement accounts.

MANAGING RISK IN SPREAD-BASED PRODUCTS

Because of the significant guarantees we provide as part of our spread-based asset accumulation products, risk management is particularly important in this line of business. To facilitate risk management, we segregate and manage the assets supporting our spread-based products separately from the rest of our general account. Our risk

management strategy is more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quantitative and Qualitative Information about Market Risk" and is based upon the following guidelines:

- Managing interest rate exposure by closely matching the relative sensitivity of asset and liability values to interest rate changes, i.e. creating a "duration match" of assets and liabilities. Our methodology recognizes both partial and total duration. Our tolerance for mismatch is +/-0.25 years for total duration and +/-0.10 years for partial durations. As of March 31, 2001, the difference between the asset and liability durations on our primary duration managed portfolio was 0.02 years.

- Projecting cash flows for each asset and liability and measuring the sensitivity of assets and liabilities to interest rate changes. This measurement process provides our risk managers with a more complete picture of our liability structure, the appropriateness of pricing and the overall soundness of the management of the account than do conventional accounting techniques alone.

- Restricting the portion of securities with redemption features held in our invested asset portfolio in order to minimize cash flow volatility.

- Writing contracts that typically have a predictable maturity structure and limit discretionary withdrawal provisions. This allows us to better manage our liquidity exposure.

- Monitoring contribution and withdrawal activity to anticipate deviations from expected cash flows. Any such deviations form the basis for new cash flow projections and may trigger a change in our portfolio hedging requirements.

- Conducting studies to test our liquidity tolerance to stress situations such as sudden and intense outflows of cash. We model various "run-on-the-bank" scenarios to evaluate the liquidity needs of our portfolios and ensure that the appropriate amount of liquid assets are held. Based on these results, we believe that we have more than adequate capacity to meet commitments to policyholders.

- Establishing portfolio management groups to facilitate interaction among our various activities, including portfolio management, sales management, risk management, financial management and pricing. We believe frequent interaction and effective communication across the various activities have been key components of our successful risk management strategy.

The table below illustrates, for the periods indicated, gross new deposits under management and reserves for the spread-based products in our U.S. asset accumulation pension operations:

U.S. ASSET ACCUMULATION
PENSION SPREAD-BASED PRODUCTS SELECTED FINANCIAL DATA

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
GROSS NEW DEPOSITS UNDER MANAGEMENT:				
Guaranteed investment contracts	$ 958.2	$ 1,685.2	$ 3,221.1	$ 4,720.6
Funding agreements	622.7	1,416.0	1,381.0	448.4
Full-service Payout	249.4	519.7	562.4	281.0
Total	$ 1,830.3	$ 3,620.9	$ 5,164.5	$ 5,450.0
RESERVES:				
Guaranteed investment contracts	$14,589.0	$14,700.9	$15,839.7	$15,535.8
Funding agreements	4,049.2	3,247.4	1,881.9	652.7
Full-service Payout	4,968.4	4,762.2	4,390.5	3,951.2
Total	$23,606.6	$22,710.5	$22,112.1	$20,139.7

MARKETS AND DISTRIBUTION

We offer our pension products and services to employer-sponsored pension plans, including qualified and non-qualified defined contribution plans, qualified defined benefit plans, and institutional investors. Our primary target market is pension plans sponsored by small and medium-sized businesses, which we believe remains under-penetrated. Only 14% of businesses with less than 100 employees, and 36% of businesses with between 100 and 500 employees, offered a 401(k) plan in 1999, according to the Spectrem Group. The same study indicates that 81% of

employers with 500 or more employees offered a 401(k) plan in 1999. The tables below break down, for the periods indicated, the number of plans and assets under management for our full-service accumulation business by employer size:

U.S. ASSET ACCUMULATION
PENSION FULL-SERVICE ACCUMULATION DATA BY EMPLOYER SIZE

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
NUMBER OF PLANS:				
1-99 employees	31,808	32,291	34,865	35,845
100-499 employees	3,502	3,616	3,514	3,587
500-999 employees	390	392	359	354
1000+ employees	234	231	238	215
Total	35,934	36,530	38,976	40,001
Average Number of Employees Per Plan	71	67	64	60

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN BILLIONS)			
ASSETS UNDER MANAGEMENT:				
1-99 employees	$18.2	$19.3	$20.4	$18.1
100-499 employees	11.1	11.7	12.1	11.0
500-999 employees	3.3	3.6	3.5	3.2
1000+ employees	7.1	7.4	7.3	6.2
Total	$39.7	$42.0	$43.3	$38.5

FULL-SERVICE ACCUMULATION. We sell our full-service accumulation products and services nationally, primarily through a captive retirement services sales force. As of March 31, 2001, 122 retirement services sales representatives in 55 offices, operating as a wholesale distribution network, maintained relationships with approximately 13,000 independent brokers, consultants and agents. Retirement services sales representatives are an integral part of the sales process alongside the referring consultant or independent broker. We compensate retirement services sales representatives through a blend of salary and production-based incentives, while we pay independent brokers, consultants and agents a commission or fee.

As of March 31, 2001, we had a separate staff of 151 service representatives located in the sales offices who play a key role in the ongoing servicing of pension plans by:

- providing local services to our customers, such as renewing contracts, revising plans and solving any administration problems;

- communicating the customers' needs and feedback to us; and

- helping employees understand the benefits of their pension plans.

We believe that our approach to pension plan services distribution gives us a local sales and service presence that differentiates us from many of our competitors.

We sell our annuity-based products through sales representatives, agents and brokers who are not required to register with the SEC.

Principal Advantage, our mutual fund-based product, is targeted at defined contribution plans with over $3 million of assets. We sell Principal Advantage through affiliated registered representatives, stockbrokers, registered investment advisors and fee-based consultants through sales agreements with non-affiliated broker-dealers. Principal Advantage gives us access to SEC-registered distributors who are not traditional sellers of annuity-based products and opens new opportunities for us in the investment advisor and broker-dealer distribution channels.

We significantly expanded our marketing and product development efforts into the "not-for-profit" market in 1999, with the acquisition of Professional Pensions, Inc., which specializes in providing full-service accumulation 403(b) pension plans to 501(c)(3) not-for-profit organizations. As of March 31, 2001, we provided pension products and services to 746 pension plans sponsored by educational and not-for-profit organizations with $1,043.7 million of assets under management.

Impact401k.com is our self-service Internet site, through which plan sponsors can handle the purchase, enrollment and administration of a 401(k) pension plan entirely through the Internet. Impact401k.com allows plan participants to

gain on-line access to their accounts, transfer funds between accounts and review customized investment options. Accordingly, our employees do not have to perform any administrative activities. Impact401k.com is targeted at smaller businesses that seek a low cost product, as well as businesses of any size that prefer to handle administrative activities through the Internet.

FULL-SERVICE PAYOUT AND INVESTMENT-ONLY. Our primary distribution channel for full-service payout and investment-only products was comprised of 11 specialized home office marketers as of March 31, 2001, working through consultants and brokers that specialize in this type of business. Our home office marketers also make sales directly to institutions. Our nationally dispersed retirement services sales representatives act as a secondary distribution channel for these products. Principal Connection also distributes full-service payout products to participants in plans we service who are terminating employment or retiring.

We market guaranteed investment contracts and funding agreements primarily to pension plan sponsors and other institutions. We also offer them as part of our full-service accumulation products. We sell our guaranteed investment contracts primarily to plan sponsors for funding of tax-qualified retirement plans. We sell our funding agreements to institutions that may or may not be pension funds. Our primary market for funding agreements is institutional investors in the United States and around the world. These investors purchase debt obligations from a special purpose vehicle which, in turn, purchases a funding agreement from us with terms similar to those of the debt obligations. The strength of this market is dependent on debt capital market conditions. As a result, our sales through this channel can vary widely from one fiscal quarter to another.

ADMINISTRATION-ONLY. We sell our defined contribution plan administration-only services primarily through business relationships with investment management firms and insurance companies. These organizations package our administrative services with their proprietary pension plan investment services for sale through their own distribution channels. We have a small number of regional consultants who facilitate the selling of our defined contribution plan administrative services by these organizations. Our administration-only individual retirement account services are distributed by a specialized home office marketer that establishes business relationships with security brokerage firms that offer individual retirement account programs directly to the public.

MUTUAL FUNDS

We have been providing mutual funds to customers since 1969. We offer mutual funds:

- to individuals;

- for use within variable life and variable annuity contracts; and

- for use in employer-sponsored pension plans.

PRODUCTS AND SERVICES

We were ranked in the top quartile among U.S. mutual fund managers in terms of total mutual fund assets under management as of February 28, 2001, according to the Investment Company Institute. The value of mutual fund assets we managed was $5.7 billion as of March 31, 2001, which included $2.1 billion derived from our variable life insurance and variable annuity products. We provide accounting, compliance, corporate governance, product development and transfer agency functions for all mutual funds we organize. As of March 31, 2001, our mutual fund operations served approximately 583,000 mutual fund shareholder accounts.

PRINCIPAL MUTUAL FUNDS. Principal Mutual Funds is a family of mutual funds offered to individuals and businesses, with 26 mutual funds as of March 31, 2001. We report the results for these funds in this segment under "Mutual Funds".

The table below shows a breakdown between our affiliated and third-party asset managers within Principal Mutual Funds, by investment type, for the periods indicated:

U.S. ASSET ACCUMULATION
PRINCIPAL MUTUAL FUNDS BY ASSET MANAGER
AS OF MARCH 31, 2001

	AFFILIATED		THIRD-PARTY		TOTAL	
INVESTMENT TYPE	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS
	($ IN BILLIONS)					
Equity						
Domestic U.S.	$2.0	9	$0.1	6	$2.1	15
International	0.4	5	--	--	0.4	5
Income	0.7	5	--	--	0.7	5
Money Market	0.4	1	--	--	0.4	1
Total	$3.5	20	$0.1	6	$3.6	26

The table below shows our mutual funds asset flow summary for the periods indicated:

U.S. ASSET ACCUMULATION
PRINCIPAL MUTUAL FUNDS ASSET FLOW SUMMARY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	1999
	($ IN BILLIONS)		
Assets Under Management, beginning of period	$ 3.9	$ 4.1	$ 3.7
Deposits	0.3	1.3	1.3
Withdrawals	(0.3)	(1.4)	(1.1)
Investment Performance	(0.3)	(0.1)	0.2
Other	--	--	--
Assets Under Management, end of period	$ 3.6	$ 3.9	$ 4.1

PRINCIPAL VARIABLE CONTRACTS FUND. Principal Variable Contracts Fund is a series mutual fund which, as of March 31, 2001, provided 26 investment options for use as funding choices in variable annuity and variable life insurance contracts issued by Principal Life. As of March 31, 2001, this fund had $2.1 billion in assets under management. We report the results for the funds backing variable annuity contracts in this segment under "Individual Annuities." We report the results for the funds backing variable life insurance contracts in the Life and Health Insurance segment.

PRINCIPAL INVESTORS FUND. Principal Investors Fund is a newly expanded series mutual fund which, as of March 31, 2001, offered 43 investment options. This fund acts as the funding vehicle for Principal Advantage, the defined contribution product described above under "-- U.S. Asset Management and Accumulation -- U.S. Asset Accumulation -- Pension -- Products and Services -- Full-service Accumulation." We report the results for this fund under "Pension".

MARKETS AND DISTRIBUTION

Our markets for mutual funds are individuals seeking to accumulate savings for retirement and other purposes and small businesses seeking to use mutual funds as the funding vehicle for pension plans, as well as non-qualified individual savings plans utilizing payroll deductions. We also market our retail mutual funds to participants in pension plans who are departing their plans and reinvesting their retirement assets into individual retirement accounts.

Our mutual funds are sold primarily through our affiliated financial representatives, independent brokers registered with our securities broker-dealer Princor Financial Services Corporation, or Princor, registered representatives from other broker-dealers, direct deposits from our employees and others and Principal Connection. Princor, as the marketing arm of our mutual fund business, recruits, trains and supervises registered representatives selling our products who numbered approximately 2,700 at March 31, 2001, including our affiliated financial representatives. Registered representatives are responsible for understanding the customer's investment objectives and financial

situation, complying with all regulations pertaining to the solicitation and/or execution of securities transactions and providing current information to the customer. Affiliated financial representatives produced 49%, or $75.6 million, of our mutual fund sales for the three months ended March 31, 2001.

The table below shows sales, as measured by deposits, of our mutual funds by distribution channel for the periods indicated:

U.S. ASSET ACCUMULATION
MUTUAL FUNDS SALES BY DISTRIBUTION CHANNEL(1)

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Affiliated financial representatives	$ 75.6	$326.9	$442.0	$517.6
Principal Connection	48.6	141.5	114.2	104.4
Independent brokers and registered representatives of Princor	5.5	13.6	3.3	--
Other (non-affiliated) broker-dealers	13.9	66.9	40.4	76.5
Direct deposits(2)	9.7	18.6	25.9	29.8
Total	$153.3	$567.5	$625.8	$728.3

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(1) Excludes deposits to money market funds totaling $174.7 million for the three months ended March 31, 2001, $732.8 million in 2000, $621.3 million in 1999 and $2,067.4 million in 1998.
(2) Direct deposits from the Principal Financial Group employees and others.

INDIVIDUAL ANNUITIES

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

PRODUCTS AND SERVICES

We offer both fixed and variable annuities to individuals. Individual annuities may be deferred, in which case assets accumulate until the contract is surrendered, the customer dies or the customer begins receiving benefits under an annuity payout option, or immediately, in which case payments begin within one year of issue and continue for a fixed period of time or for life.

FIXED ANNUITIES. Our individual fixed annuities are predominantly single premium deferred annuity contracts. These contracts are savings vehicles through which the customer makes a single deposit with us. Under the contract, the principal amount is guaranteed and for a specified time period, typically one year, we credit the customer's account at a fixed interest rate. Thereafter, we reset, typically annually, the interest rate credited to the contract based upon market and other conditions. Our major source of income from fixed annuities is the spread between the investment income we earn on the underlying general account assets and the interest rate we credit to customers' accounts. We bear the investment risk because, while we credit customers' accounts with a stated interest rate, we cannot be certain the investment income we earn on our general account assets will exceed that rate.

VARIABLE ANNUITIES. Our individual variable annuity products consist almost entirely of flexible premium deferred variable annuity contracts. These contracts are savings vehicles through which the customer makes a single deposit or a series of deposits of varying amounts and intervals. Customers have the flexibility to allocate their deposits to investment sub-accounts managed by Principal Capital Management, or third-party asset managers including Fidelity Investments(R), AIM Advisors, Inc., Morgan Stanley Asset Management, J.P. Morgan Investment Management, Inc., Janus Capital Corporation, Neuberger Berman Management, Inc., The Dreyfus Corporation, Goldman Sachs Asset Management, Duncan-Hurst Capital Management, Inc., Turner Investment Partners, Inc., and Berger, LLC. As of March 31, 2001, 58% of our $2.2 billion in variable annuity account balances were allocated to investment sub-accounts managed by Principal Capital Management, 29% to investment sub-accounts managed by third-party asset managers and 13% to our general account, also managed by Principal Capital Management. The value of the annuity fluctuates in accordance with the experience of the investment sub-accounts chosen by the customer. The customers bear the investment risk and have the right to allocate their assets among various separate investment sub-accounts. Customers have the option to allocate all or a portion of their account to our general account, in which case we credit interest at rates we determine, subject to contractual minimums. Customers may also elect death benefit guarantees. Our major source of revenue from variable annuities is mortality and expense fees we charge to the customer, generally determined as a percentage of the market value of the assets held in a separate investment sub-account.

The table below presents summary information regarding our annuity reserve activity for the periods indicated:

U.S. ASSET ACCUMULATION
INDIVIDUAL ANNUITY ACCOUNT VALUE ACTIVITY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
FIXED ANNUITIES:				
Total Account Value, beginning of period	$2,364.5	$2,480.9	$2,641.4	$2,797.6
Premiums and deposits	26.9	162.0	208.9	261.3
Interest credited	33.9	138.6	136.2	149.7
Surrenders and benefits	(104.6)	(412.5)	(500.8)	(562.3)
Product charges	(1.1)	(4.5)	(4.8)	(4.9)
Total Account Value, end of period	$2,319.6	$2,364.5	$2,480.9	$2,641.4
Number of Contracts, end of period	66,781	68,179	75,119	82,481
VARIABLE ANNUITIES:				
Total Account Value, beginning of period	$2,348.5	$2,202.7	$1,762.8	$1,297.2
Deposits	125.2	444.0	385.7	420.6
Interest credited and investment performance	(257.9)	(75.1)	232.6	154.6
Surrenders and benefits	(50.9)	(193.0)	(153.1)	(91.0)
Product charges	(7.3)	(30.1)	(25.3)	(18.6)
Total Account Value, end of period	$2,157.6	$2,348.5	$2,202.7	$1,762.8
Number of Contracts, end of period	45,286	44,146	39,767	35,283
TOTAL ANNUITIES:				
Total Account Value, beginning of period	$4,713.0	$4,683.6	$4,404.2	$4,094.8
Premiums and deposits	152.1	606.0	594.6	681.9
Interest credited and investment performance	(224.0)	63.5	368.8	304.3
Surrenders and benefits	(155.5)	(605.5)	(653.9)	(653.3)
Product charges	(8.4)	(34.6)	(30.1)	(23.5)
Total Account Value, end of period	$4,477.2	$4,713.0	$4,683.6	$4,404.2
Number of Contracts, end of period	112,067	112,325	114,886	117,764

MARKETS AND DISTRIBUTION

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

We sell our individual annuity products largely through our affiliated financial representatives, who accounted for over 75% of annuity sales for the three months ended March 31, 2001, and the years ended December 31, 2000, 1999 and 1998. The remaining sales were made through brokerage general agencies, banks, Principal Connection and unaffiliated broker-dealer firms.

The table below shows sales of our individual annuities by distribution channel for the periods indicated:

U.S. ASSET ACCUMULATION
INDIVIDUAL ANNUITY SALES BY DISTRIBUTION CHANNEL(1)

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Affiliated financial representatives	$128.6	$499.4	$409.0	$443.0
Independent brokers and registered representatives of Princor	8.5	35.4	38.8	49.1
Other (non-affiliated) broker dealers	0.5	18.3	14.9	3.1
Banks	11.3	30.2	32.8	33.6
Principal Connection	3.2	22.7	23.5	13.1
Total	$152.1	$606.0	$519.0	$541.9

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(1) Excludes deposits related to rollovers from Principal draft account products.

PRINCIPAL BANK

Principal Bank, our electronic banking operation, is a federal savings bank that began its activities in February 1998. It offers traditional retail banking products and services via the telephone, Internet, ATM or by mail. Our current products and services offering includes checking and savings accounts, certificates of deposit, consumer and home equity loans, credit cards, debit cards, money market accounts and a college savings program. As of March 31, 2001, Principal Bank had approximately 46,552 customers and $690.5 million in assets, principally representing checking account deposits and certificates of deposit.

We market our Principal Bank products and services through Principal Connection to our existing customers, especially pension plan participants. Through Principal Bank, we also pursue asset retention strategies with our existing customers who seek to transfer assets from our other asset accumulation products by offering them our banking products and services.

PRINCIPAL CAPITAL MANAGEMENT

In 1999, we established Principal Capital Management to consolidate our extensive investment management expertise and to focus on marketing our asset management services to third-party institutional clients. Principal Capital Management provides asset management services to our U.S. asset accumulation businesses and third-party institutional clients, as well as our other U.S.-based segments. Principal Capital Management provides a full range of asset management services with a particular emphasis on three primary asset classes: (1) equity investments; (2) fixed income investments; and (3) real estate investments. Principal Capital Management manages both U.S. and international assets.

As of March 31, 2001, Principal Capital Management, through its affiliates, Invista Capital Management, Principal Capital Income Investors and Principal Capital Real Estate Investors, managed $81.8 billion in assets. Our third-party institutional assets have increased since the establishment of Principal Capital Management from $3.5 billion on January 1, 1999 to $6.1 billion as of March 31, 2001.

The following table shows Principal Capital Management's assets under management by asset class for the periods indicated:

PRINCIPAL CAPITAL MANAGEMENT
ASSETS UNDER MANAGEMENT BY ASSET CLASS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998(1)	
	($ IN BILLIONS)							
U.S. Equity	$ 19.4	24%	$22.4	27%	$25.9	32%	$23.2	30%
International Equity	4.6	6	5.6	7	6.3	8	4.5	6
Fixed Income	36.3	44	33.7	40	28.4	34	27.2	35
Commercial Mortgages	14.1	17	14.1	17	14.8	18	15.0	19
Commercial Real Estate Equity	5.4	7	5.6	7	5.5	7	5.8	8
Other	2.0	2	1.8	2	1.3	1	1.4	2
Total	$ 81.8	100%	$83.2	100%	$82.2	100%	$77.1	100%

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(1) Includes assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

The table below shows our asset flow summary for Principal Capital Management operations for the periods indicated:

PRINCIPAL CAPITAL MANAGEMENT
ASSET FLOW SUMMARY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	1999
	($ IN BILLIONS)		
Assets Under Management, beginning of period	$ 83.2	$ 82.2	$ 77.1(1)
Deposits	5.1	17.4	16.3
Withdrawals	(3.9)	(17.7)	(12.9)
Investment Performance	(2.1)	2.9	6.7
Other	(0.5)	(1.6)	(5.0)
Assets Under Management, end of period	$ 81.8	$ 83.2	$ 82.2

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(1) Includes assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

STRATEGY

We seek to provide asset management services that respond to the needs of our asset accumulation operations and third-party institutional clients. Our capabilities include expertise in equities, commercial real estate and fixed income securities. Principal Capital Management pursues the following strategic initiatives:

GROW OUR THIRD-PARTY INSTITUTIONAL ASSETS UNDER MANAGEMENT. We are developing relationships with customers and intermediaries through our expanded institutional marketing staff. We have increased our third-party institutional marketing and client service staff from five to more than forty over the past three years. We have also increased the number of consultant informational databases to which we provide product information. As a result, in 2000 we gained 24 new institutional mandates, up from 16 new institutional mandates in 1999. We believe these marketing efforts have led to the considerable growth in our third-party institutional assets under management since 1999. We also market the combined expertise of Principal Capital Management and BT Financial Group to third-party institutional clients through joint marketing offices in London, Hong Kong and Singapore. BT Financial Group's asset management expertise is complementary to the expertise of Principal Capital Management.

IMPROVE OUR ASSET MANAGEMENT CAPABILITIES AND SERVICES. During 2000, we instituted greater discipline in our investment management process to better ensure that our performance compares favorably to the appropriate benchmark. We have also increased the number of experienced investment professionals we employ. We believe these

actions will improve our ability to attract investment advisory allocations from our asset accumulation operations and from investment mandates from third-party institutions.

INCREASE THE NUMBER OF AVAILABLE INVESTMENT STYLES AND ASSET CLASSES. To better serve our existing clients and attract new clients, we have made additional investment styles and asset classes available to our customers. For example, we offer U.S. equities, emerging market equities, international small capitalization equities, international fixed income securities, commercial mortgage-backed securities and real estate mezzanine/bridge loans. We believe that increasing the number of asset classes we offer will help us increase our assets under management.

PRODUCTS AND SERVICES

Principal Capital Management provides a full range of asset management services, with a particular emphasis on three asset classes through a range of vehicles including separate accounts, mutual funds, institutional accounts, collateralized debt securities and Principal Life's general account:

EQUITY INVESTMENTS. Principal Capital Management, through its affiliate, Invista Capital Management, managed equity portfolios, which represented $23.5 billion in assets as of March 31, 2001. Invista Capital Management provides our clients with access to a broad array of domestic, international and emerging markets equity capabilities. The domestic equity products are organized across growth and value styles, with portfolios targeted to distinct capitalization ranges. As of March 31, 2001, 76% of Invista Capital Management's assets under management were derived from our pension products, 16% from other products of the Principal Financial Group, and the remaining 8% from third-party institutional clients.

FIXED INCOME INVESTMENTS. Principal Capital Management, through its affiliate, Principal Capital Income Investors, managed $35.8 billion in fixed income assets as of March 31, 2001. Principal Capital Income Investors provides our clients with access to investment-grade corporate debt, mortgage-backed, asset-backed and commercial mortgage-backed securities, high yield and municipal bonds and private and syndicated debt instruments. As of March 31, 2001, 70% of these assets were derived from our pension products, 28% from other products of the Principal Financial Group, and the remaining 2% from third-party institutional clients.

REAL ESTATE INVESTMENTS. Principal Capital Management, through its affiliate, Principal Capital Real Estate Investors, managed a commercial real estate portfolio of $20.4 billion of assets as of March 31, 2001. Principal Capital Real Estate Investors provides our clients with a broad range of real estate investment options, including private real estate equity, commercial mortgages, credit tenant debt, construction-permanent financing, bridge/mezzanine loans, commercial mortgage-backed securities and real estate investment trusts. Principal Capital Management had $0.8 billion of assets under management as of March 31, 2001, from bridge/mezzanine loans and commercial mortgages which appear on its balance sheet. The commercial mortgages represent the source of mortgages for our commercial mortgage-backed securitization program. As of March 31, 2001, 53% of the commercial real estate portfolio was derived from our pension products, 31% from other products of the Principal Financial Group, and the remaining 16% from third-party institutional clients.

INVESTMENT PERFORMANCE

A primary measure of asset management services is investment performance. The table below shows the number of funds and investment performance of Principal Capital Management's managed separate accounts and mutual funds, by investment type, compared to other funds by Morningstar as of March 31, 2001:

PRINCIPAL CAPITAL MANAGEMENT
PERFORMANCE BY INVESTMENT TYPE
AS OF MARCH 31, 2001

	SEPARATE ACCOUNTS				MUTUAL FUNDS			
			FUNDS WITH 3 STARS OR ABOVE/FUNDS RANKED				FUNDS WITH 3 STARS OR ABOVE ON CLASS A SHARES/FUNDS RANKED(2)	
INVESTMENT TYPE	NUMBER OF FUNDS(1)	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT
		($ IN BILLIONS)						
Equity								
Domestic U.S.	24	$16.2	8/11	$14.9/$15.8	9	$2.0	3/8	$0.6/$1.9
International	6	2.6	2/3	2.5/2.6	5	0.4	2/3	0.1/0.4
Real Estate	1	1.2	N/A	N/A	N/A	--	N/A	N/A
Fixed Income	6	4.8	6/6	4.8/4.8	5	0.7	4/5	0.6/0.7
Money Market	1	2.4	N/A	N/A	1	0.4	N/A	N/A
Total	38	$27.2	16/20	$22.2/$23.2	20	$3.5	9/16	$1.3/$3.0

(1) Includes funds that are not rated by Morningstar.

(2) According to Morningstar, a fund's ten year return accounts for 50% of its overall rating score, its five year return accounts for 30% and its three year return accounts for 20%. If only five years of history are available, the five year period is weighted 60% and the three year period is weighted 40%. According to Morningstar, funds in the top 67.5% of their asset category receive 3 stars or above.

MARKETS AND DISTRIBUTION

Principal Capital Management employed 39 institutional sales, relationship management and client service professionals as of March 31, 2001, who worked with consultants and directly with large investors to acquire and retain third-party institutional clients. For 2000, approximately 41% of new institutional clients were originated through direct client contact by Principal Capital Management representatives with the balance derived from consultants.

We also market the combined expertise of Principal Capital Management and BT Financial Group to third-party institutional clients through joint marketing offices in London, Hong Kong and Singapore. BT Financial Group's asset management expertise is complementary to the expertise of Principal Capital Management.

The table below shows Principal Capital Management's total assets by accumulation source for the periods indicated:

PRINCIPAL CAPITAL MANAGEMENT
TOTAL ASSETS BY ACCUMULATION SOURCE(1)

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998(2)
	($ IN BILLIONS)			
ACCUMULATION SOURCE				
Affiliated				
Pension				
General Account	$29.9	$28.6	$27.8	$27.1
Separate Account	26.4	28.8	30.9	27.0
Mutual Funds	3.5	3.8	4.0	3.7
Individual Annuities				
General Account	2.8	2.8	2.8	3.0
Separate Account	1.3	1.3	1.4	1.3
Life and Health Insurance General Account	9.1	9.0	8.5	8.1
Separate Account	0.2	0.2	0.1	0.1
Other	2.5	2.4	2.0	3.3
Total Affiliated	75.7	76.9	77.5	73.6
Third-party Institutional	6.1	6.3	4.7	3.5
Total Assets Under Management	$81.8	$83.2	$82.2	$77.1

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(1) Includes all assets for which Principal Capital Management provides investment advisory services.

(2) Includes assets managed by Invista Capital Management and the former investment department of Principal Life prior to the formation of Principal Capital Management, effective January 1, 1999.

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION SEGMENT

Our International Asset Management and Accumulation segment consists of BT Financial Group and Principal International. As of March 31, 2001, BT Financial Group was the fourth largest asset manager in Australia according to ASSIRT. As of March 31, 2001, BT Financial Group had accumulated $22.2 billion of assets under management and provided investment advisory services to $21.0 billion in assets. Principal International has subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong and joint ventures in Brazil, Japan and India. We focus on countries with favorable demographics and a trend toward private sector defined contribution pension systems. We entered these countries through acquisitions and joint ventures.

Our International Asset Management and Accumulation segment generated 6%, 7%, 4% and 3% of our total operating revenues and $(5.3) million, $(8.5) million, $(38.4) million and $(35.4) million of our total operating earnings for the three months ended March 31, 2001 and the years ended December 31, 2000, 1999 and 1998, respectively.

The table below shows the operating revenues, operating earnings, assets and assets under management of our International Asset Management and Accumulation segment for the periods indicated:

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION
SELECTED FINANCIAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999(3)		1998	
	($ IN MILLIONS)							
OPERATING REVENUES(1):								
BT Financial Group	$ 63.5	44%	$ 285.3	45%	$ 113.8	30%	$ --	--%
Principal International	80.9	56	345.4	55	265.8	70	223.1	100
Total	$ 144.4	100%	$ 630.7	100%	$ 379.6	100%	$ 223.1	100%

INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION
SELECTED FINANCIAL HIGHLIGHTS -- (CONTINUED)

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999(3)		1998	
	($ IN MILLIONS)							
OPERATING EARNINGS (LOSS):								
BT Financial Group(2)	$ (5.6)	N/A	$ 6.3	N/A	$ (4.8)	N/A	$ --	N/A
Principal International	0.3	N/A	(14.8)	N/A	(33.6)	N/A	(35.4)	N/A
Total	$ (5.3)	N/A	$ (8.5)	N/A	$ (38.4)	N/A	$ (35.4)	N/A
ASSETS:								
BT Financial Group	$3,246.2	66%	$3,716.8	67%	$4,472.8	75%	$ --	--%
Principal International	1,681.9	34	1,809.1	33	1,454.0	25	1,239.4	100
Total	$4,928.1	100%	$5,525.9	100%	$5,926.8	100%	$1,239.4	100%
ASSETS UNDER MANAGEMENT:								
($ in billions)								
BT Financial Group	$ 22.2	88%	$ 25.4	89%	$ 28.6	93%	$ --	--%
Principal International	2.9	12	3.0	11	2.0	7	1.2	100
Total	$ 25.1	100%	$ 28.4	100%	$ 30.6	100%	$ 1.2	100%

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(1) Excludes net realized capital gains and their impact on recognition of front-end fee revenues.

(2) Reflects amortization of goodwill and other intangibles related to the acquisition of BT Financial Group.

(3) Reflects operations of BT Financial Group from August 31, 1999, the date of its acquisition.

BT FINANCIAL GROUP

Our acquisition of BT Financial Group was a central element in our expansion of our international asset management and accumulation businesses. BT Financial Group's operations include:

- retail funds management;

- institutional asset management;

- margin lending;

- portfolio services; and

- New Zealand.

In November 1998, Deutsche Bank AG announced the purchase of Bankers Trust Corporation, the parent company of Bankers Trust Australia Group. In March 1999, Deutsche Bank announced its intention to sell Bankers Trust's Australian operations while retaining its asset management operations in Japan, the U.K. and New York. During the period that Bankers Trust's Australian operations were for sale, many investment advisors in Australia suspended new deposits pending clarification on the ownership of the business. On August 31, 1999, we purchased Bankers Trust Australia Group, including BT Funds Management and related businesses. We subsequently changed its name to BT Financial Group. Since the transaction closed, deposits have resumed as demonstrated in the Asset Flow Summary table below.

We measure assets under management in two ways, both by the operation that accumulates the assets and by the entity that manages the assets. BT Financial Group both accumulates and manages assets. From an accumulation perspective, BT Financial Group had assets under management of $22.2 billion as of March 31, 2001. As of that same date, BT Financial Group provided investment advisory services for $21.0 billion. The difference represents assets accumulated by BT Financial Group for which another asset manager provides investment advisory services. BT Financial Group's assets under management increased A$1.9 billion from December 31, 1999 to March 31, 2001. However, a 25% decline in the value of the Australian dollar relative to the U.S. dollar resulted in a $6.4 billion decrease.

The table below shows the amount of assets under management by operation for BT Financial Group for the periods indicated:

BT FINANCIAL GROUP
ASSETS UNDER MANAGEMENT(1)

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998(2)
		(IN BILLIONS)		
Retail	A$22.4	A$23.3	A$20.9	A$18.7
Institutional	17.7	17.5	19.7	22.0
Margin Lending	1.1	1.1	1.0	1.0
Portfolio Services	2.9	2.5	0.9	0.1
New Zealand	1.2	1.1	1.0	1.2
Other	0.1	0.2	--	--
Total	A$45.4	A$45.7	A$43.5	A$43.0
Total	$22.2	$25.4	$28.6	$26.4

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(1) A$ denotes Australian dollars.

(2) Includes assets managed by BT Financial Group prior to its acquisition by the Principal Financial Group. Assets are presented for comparative purposes only and are not included in segment or consolidated assets under management amounts reported elsewhere in this document.

The table below shows BT Financial Group's asset flow summary for the periods indicated:

BT FINANCIAL GROUP
ASSET FLOW SUMMARY(1)

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,			
	2001		2000		1999(2)	
			(IN BILLIONS)			
Assets Under Management, beginning of period	A$45.7	$25.4	A$43.5	$28.6	A$43.0	$26.4
Net Deposits and Withdrawals	0.4	0.2	1.3	0.7	(4.0)	(2.7)
Investment Performance	(0.3)	(0.1)	0.9	0.5	4.5	3.0
Effect of Exchange Rates	--	(3.1)	--	(4.4)	--	1.9
Other	(0.4)	(0.2)	--	--	--	--
Assets Under Management, end of period	A$45.4	$22.2	A$45.7	$25.4	A$43.5	$28.6

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(1) A$ denotes Australian dollars.

(2) Includes assets managed by BT Financial Group prior to its acquisition by the Principal Financial Group. Assets are presented for comparative purposes only and are not included in segment or consolidated assets under management amounts reported elsewhere in this document.

STRATEGY

Our strategic initiatives for BT Financial Group include:

FURTHER INTEGRATE BT FINANCIAL GROUP'S ACTIVITIES. We continue to look for opportunities to capture synergies between BT Financial Group and our operating segments, especially with respect to product distribution and operating platforms. For example, we offer BT Financial Group-managed products in our U.S. 401(k) products. Similarly, we offer Principal Capital Management-managed products to institutions in Australia through BT Financial Group's existing distribution network.

GROW OUR RETAIL FUNDS MANAGEMENT BUSINESS WITH EMPHASIS ON CORPORATE MASTER TRUST SUPERANNUATION PLANS. We believe that BT Financial Group has a strong financial sector brand in Australia, in addition to an extensive family of

investment products. It also has distribution relationships with most major Australian banks, life insurers, independent financial advisors and other distributors of financial products.

The Australian asset management market has grown in part from the introduction of superannuation, a mandatory, tax-favored defined contribution retirement system established in the early 1990s. According to Cerulli Associates, Inc., from June 1995 to June 1999, Australian superannuation assets grew from A$228.0 billion to A$408.0 billion, a compound annual growth rate of 15.7%. Under superannuation, all employers in Australia are required to contribute 8%, increasing to 9% in July 2002, of an employee's salary to a defined contribution pension plan. These mandatory contributions will provide continued growth in assets under management in Australia generally and, we believe, will provide the opportunity for attractive growth for BT Financial Group specifically.

Utilizing its brand recognition and extensive distribution channels, BT Financial Group has increased its marketing efforts on the sale of corporate master trust superannuation plans, especially those of small and medium-sized businesses. These corporate master trust plans are similar to 401(k) plans in the United States in that they are employer-sponsored defined contribution plans. We believe that BT Financial Group's strong market position, together with the expertise we have developed in the U.S. defined contribution pension market, should provide for growth in our assets under management in Australia.

GROW OUR THIRD-PARTY INSTITUTIONAL ASSET MANAGEMENT BUSINESS OUTSIDE OF AUSTRALIA. BT Financial Group and Principal Capital Management together target markets abroad through joint marketing offices in London, Hong Kong and Singapore. These offices market the institutional investment advisory services of both operations. BT Financial Group also provides investment advisory services to Principal International.

GROW BT FINANCIAL GROUP'S WRAP PRODUCT. BT Financial Group's Wrap product is an Internet-based portfolio transaction and administration service targeted at independent financial advisors. It enables a financial planner to track a client's total portfolio and provide consolidated reporting and transaction capabilities in a user-friendly and cost effective manner. Since its launch in early 1998, Wrap assets under management have grown from $0.5 billion (A$0.9 billion) as of December 31, 1999 to $1.4 billion (A$2.9 billion) as of March 31, 2001. We believe that we have a competitive lead in the provision of this type of administration service to financial advisors and their clients in Australia.

PRODUCTS AND SERVICES

BT Financial Group offers a wide range of investment products, margin lending and portfolio services.

RETAIL FUNDS MANAGEMENT. To its retail clients, BT Financial Group offers an extensive range of retirement and investment services, including retail mutual funds, pensions, annuities and corporate superannuation plans to approximately 500,000 retail customers as of December 31, 2000. BT Financial Group makes available a client service call center and the "BT Online" Internet site, both providing account information and transaction services for investors and financial intermediaries.

INSTITUTIONAL ASSET MANAGEMENT. To its larger institutional clients, both in Australia and in targeted global markets, BT Financial Group offers products and services covering a full investment range, including actively managed diversified and specialist funds, individual client mandates, pooled investment funds, global equities and fixed income securities, as well as currency and asset allocation overlays. An overlay is a portfolio strategy that allows an institution to seek enhanced portfolio returns by changing its exposure to asset classes without liquidating a portion of its portfolio.

MARGIN LENDING. BT Financial Group is one of the largest margin lenders in the Australian market. According to Cannex's February 2001 margin lending report, BT Financial Group was awarded a five star rating (out of 5) on one of its margin lending products and a four star rating on four other margin lending products. Margin lending products assigned five stars are described by Cannex as "Excellent" while those assigned four stars are characterized as "Very Good." Margin lending enables investors to borrow up to 70% of the value of mutual funds and select listed securities. Rising levels of share ownership among Australian investors has generated increased margin lending, with BT Financial Group's margin lending portfolio balance of $0.5 billion (A$1.1 billion) as of March 31, 2001. On November 30, 1999, BT Financial Group margin lending operations securitized its margin lending portfolio with Westpac Banking Corporation, an Australian Bank. Under the terms of the financing, BT Financial Group margin lending operations are required to allocate capital equal to approximately 7% of the outstanding borrowed amount, as a cushion for loan defaults.

PORTFOLIO SERVICES. BT Financial Group is a leading provider of investment administration, processing and registry services in Australia and New Zealand. Wrap is our fastest growing portfolio services product. It provides independent financial advisors with a range of investment choices for their clients administered via a central Internet-based source with a choice of mutual funds and listed equity securities. This product enables them, on behalf of their clients, to manage all of a client's investment portfolio. Wrap also provides for custody, settlement and accounting of all investments with online account capabilities and reporting to the investor.

NEW ZEALAND. BT New Zealand provides a comprehensive range of retail and institutional asset management services in New Zealand. BT Financial Group's New Zealand business had $0.6 billion (A$1.2 billion) of assets under management as of March 31, 2001.

INVESTMENT PERFORMANCE

As of March 31, 2001, BT Financial Group had a staff of 99 investment professionals actively managing mutual funds, superannuation plans and other related investment products. Within the funds management operations, it has developed particular expertise managing equity and fixed income funds, both in Australia and internationally.

The table below shows investment performance of BT Financial Group's retail mutual funds, superannuation plans and other retirement related products compared to other funds by Morningstar:

BT FINANCIAL GROUP
PERFORMANCE BY INVESTMENT TYPE
AS OF MARCH 31, 2001

			FUNDS WITH MORNINGSTAR RATINGS IN THE TOP 2 QUARTILES/FUNDS RATED(1)	
INVESTMENT TYPE	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT	NUMBER OF FUNDS	ASSETS UNDER MANAGEMENT(2)
		(A$ IN BILLIONS)		(A$ IN BILLIONS)
Equity:				
Australian	20	A$2.4	--/10	A$--/A$1.9
International	32	7.6	10/11	5.6/5.6
Income	18	0.3	9/13	0.1/0.3
Balanced	39	10.6	7/22	3.4/9.5
Money Market	8	0.9	2/6	0.2/0.8
Other	61	0.6	--/--	--/--
Total	178	A$22.4	28/62	A$9.3/A$18.1

(1) Morningstar rates the performance of our funds by comparing the total return of each fund to the total return of mutual funds in the same asset category as the separate account. Morningstar ranks total returns on a scale of 1-100, where 1 represents the highest-returning 1% of all funds in that asset category and 100 represents the lowest-returning 1% of all funds. For example, a quartile rank of 1 for the trailing five-year period would indicate that the fund's five-year total return places it in the top 25% of all funds in its asset category and a quartile rank of 2 would indicate that the fund's five year total return places it in the top 50% in its asset category.

(2) Includes assets that are not rated by Morningstar.

MARKETS AND DISTRIBUTION

BT Financial Group's products and services are primarily sold throughout Australia and New Zealand in both the institutional and retail markets. BT Financial Group also operates institutional asset management offices in Hong Kong, Singapore and London, as well as a joint venture operation in Malaysia.

As part of its marketing strategy, BT Financial Group has a comprehensive brand and advertising strategy covering television, print media and the Internet. Building on its successful brand campaign which positions BT Financial Group in investment and superannuation, it is now also positioning itself as a leading provider in the corporate superannuation market. For example, BT Financial Group developed a television and print campaign to target employers. It focuses on employee benefits from BT Financial Group's corporate superannuation plan, referring to corporate sponsored retirement plans. BT Financial Group has experienced growth in sales of its corporate superannuation plans since the beginning of 1999. For 2000, BT Financial Group had 488 new plans, as compared to 154 new plans in 1999.

RETAIL FUNDS MANAGEMENT. The retail funds management operations of BT Financial Group provide a number of mutual funds and retirement services, including superannuation for individuals, small and medium-sized businesses and institutions, as well as pensions and annuities for retirees. These products are primarily designed to meet the needs created by the superannuation market in Australia. BT Financial Group has five investor centers in Australia, which serve existing clients and advisors and promote BT Financial Group products and services. Independent financial advisors are the main distribution channel for retail investment products and superannuation products in Australia. BT Financial Group also distributes these products through major banks, life insurers and other mutual fund managers.

INSTITUTIONAL ASSET MANAGEMENT. BT Financial Group's institutional products and services are designed for trustees of corporate superannuation funds institutions, large corporations and quasi-governmental entities. BT Financial Group distributes the majority of its institutional asset management products and services through consultants such as Towers Perrin, Mercer, Watson Wyatt, Frank Russell and others.

MARGIN LENDING. BT Financial Group's margin lending services target retail clients and independent financial advisors. These services are marketed through independent financial advisors and retail investor centers in addition to other brokers. BT Financial Group's margin lending services allow independent financial advisors to provide their clients a full range of financial services.

PORTFOLIO SERVICES. BT Financial Group provides portfolio services to large institutions, corporations and mutual fund managers. Wrap is marketed to independent financial advisors and other financial intermediaries for a fee.

NEW ZEALAND. BT Financial Group's New Zealand operations provide a comprehensive group of products and services across both the retail and institutional markets. Retail products are distributed through independent financial advisors while institutional products are distributed through consultants.

PRINCIPAL INTERNATIONAL

The activities of Principal International reflect our efforts to accelerate the growth of our assets under management by capitalizing on the international trend toward private sector defined contribution pension systems. Through Principal International, we offer retirement products and services, annuities, mutual funds and life insurance. We operate through subsidiaries in Argentina, Chile, Mexico, Indonesia and Hong Kong and joint ventures in Brazil, Japan and India.

The table below shows by country the amount on which we earned a fee as compared to assets on which we earned a spread for the periods indicated:

PRINCIPAL INTERNATIONAL
ASSETS UNDER MANAGEMENT
FEE-BASED/SPREAD-BASED COMPOSITION

	AS OF MARCH 31,			AS OF DECEMBER 31,								
	2001			2000			1999			1998		
	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL	FEE	SPREAD	TOTAL
	($ IN BILLIONS)											
Brazil	$ --	$0.9	$0.9	$ --	$0.8	$0.8	$ --	$0.6	$0.6	$ --	$ --	$ --
Chile	--	0.9	0.9	0.1	0.9	1.0	0.1	0.8	0.9	--	0.7	0.7
Mexico	0.4	0.1	0.5	0.4	--	0.4	0.2	--	0.2	0.1	--	0.1
Other countries	0.6	--	0.6	0.5	0.3	0.8	0.2	0.1	0.3	0.2	0.2	0.4
Total	$1.0	$1.9	$2.9	$1.0	$2.0	$3.0	$0.5	$1.5	$2.0	$0.3	$0.9	$1.2

The table below shows the asset flow summary for Principal International for the periods indicated:

PRINCIPAL INTERNATIONAL
ASSET FLOW SUMMARY

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,	
	2001	2000	1999
	($ IN BILLIONS)		
Assets Under Management, beginning of period	$ 3.0	$ 2.0	$ 1.2
Deposits	0.5	1.2	0.4
Withdrawals	(0.3)	(0.5)	(0.1)
Investment performance	--	0.2	0.1
Operations acquired	--	0.2	0.6
Other	(0.2)	0.1	(0.1)
Effect of exchange rates	(0.1)	(0.2)	(0.1)
Assets Under Management, end of period	$ 2.9	$ 3.0	$ 2.0

STRATEGY

Our goal is to leverage our U.S. product expertise and operating platform in the provision of asset accumulation products and services in targeted international markets. We focus on countries that we believe offer the greatest long-term growth opportunities, favorable demographics and private defined contribution systems, particularly those in which small and medium-sized businesses sponsor the retirement plan. Our primary strategic initiative is to:

INCREASE THE GROWTH AND PROFITABILITY OF PRINCIPAL INTERNATIONAL

- Focus our operations on attractive markets. We have exited under-performing operations that lacked scale, such as our pre-retirement accumulation business in Argentina, and have sold our operations in Spain in 2001. We remain focused on countries that have attractive long-term potential, such as Brazil, India and Japan. We believe this focus will lead to more rapid growth in our assets under management.

- Leverage our domestic expertise in these markets. We operate under a structure in which the U.S. business unit responsible for the equivalent U.S. product is actively involved in the planning and execution of each country's business plan for such product. For example, our U.S. mutual fund management team is actively involved in overseeing our mutual fund joint venture in India. We believe that this involvement is critical to help our local country managers grow these operations.

- Leverage technology developed for U.S. operations into other countries. We utilize a common client/server-based system in most countries. This system incorporates expertise from our U.S. operations into a version scaled to each of our international operations. This common platform allows us to spread our technology expenditures throughout our operations rather than incurring greater expense by operating a separate system in each country.

- Grow revenues and manage expenses. Our operating revenues for this segment increased from $223.1 million in 1998 to $345.4 million in 2000, while operating expenses as a percentage of operating revenues declined from 45.4% in 1998 to 30.1% in 2000. For the three months ended March 31, 2001, operating expenses as a percentage of revenues were 28.8%.

PRODUCTS AND SERVICES

Through Principal International, we offer retirement products and services, annuities, mutual funds and life insurance.

MARKETS AND DISTRIBUTION

ASIA/PACIFIC REGION

HONG KONG. Our subsidiary in Hong Kong is actively competing in the defined contribution plan market. The government requires employers and employees each to contribute 5% of an employee's income to a Mandatory Provident Fund. We target small and medium-sized employers and distribute products through strategic alliances with insurance companies, mutual funds or banks, direct marketing and through our own sales representatives. Our strategic partners help distribute our Mandatory Provident Fund products and services, or use our administrative and investment services in their own products. Our Mandatory Provident Fund products and services are marketed by agents under the various distribution arrangements we have with our strategic partners.

INDIA. We own 50% of IDBI-Principal Asset Management Company, Ltd., or IDBI-Principal, a mutual fund company. Our joint venture partner is the Industrial Development Bank of India, or IDBI, a premier development bank in India. In addition to the current mutual fund business, we are positioning IDBI-Principal to compete in the emerging pension and long-term savings market in India. We sell our mutual funds through regional offices located throughout India and IDBI's banking offices.

INDONESIA. The focus of our Indonesian life insurance company is defined contribution and defined benefit pension plans targeted at small and medium-sized businesses. We distribute our products using employed sales representatives who sell directly to employers or through brokers. We also have a marketing alliance with Standard Chartered Bank, a leading banking group, which assists us in marketing our products throughout Indonesia.

JAPAN. We own 50% of ING/Principal Pensions Company, Ltd., which upon legislation adoption will sell a new defined contribution plan targeted at small and medium-sized businesses and offers full-service record-keeping and plan administration. Our joint venture partner is ING Insurance International B.V., or ING Life, a member of the ING Group. Our pension sales representatives distribute our products through ING Life's independent agents to existing ING Life business clients and also through additional third-party distribution relationships developed by ING/Principal Pensions Company, Ltd.

LATIN AMERICA

ARGENTINA. In Argentina, we operate a life insurance company and a retirement annuity company. Principal Life Compania de Seguros, S.A., our life insurance company, targets small and medium-sized employers. We sell group and individual life insurance products through independent brokers and through bank branches of Societe Generale, with which we have an alliance. Societe Generale is a leading French banking institution with offices throughout Argentina through which we distribute our products. Principal Retiro Compania de Seguros de Retiro, S.A., our annuity company, provides annuities to individuals exiting the compulsory private pre-retirement asset accumulation system. We distribute annuity products through dedicated sales representatives who sell directly to customers and through independent brokers in Argentina.

BRAZIL. We own 46% of BrasilPrev, a private pension company in Brazil, through a joint venture arrangement with Banco do Brasil, Brazil's largest bank. We are Banco do Brasil's exclusive partner for distributing pension products. BrasilPrev provides defined contribution products for the retirement needs of employers and individuals. Banco do Brasil's employees sell directly to individual clients through its bank branches. BrasilPrev reaches corporate clients through two wholesale distribution channels. A wholesale distribution channel distributes products through a network of independent brokers who sell to the public, and another wholesale distribution channel coordinates with Banco do Brasil's corporate account executives to reach Banco do Brasil's existing corporate clients.

CHILE. We own Principal Compania de Seguros de Vida Chile S.A., a Chilean insurance company, that primarily sells retirement annuities to individuals exiting the pre-retirement accumulation system. In July 1998, we acquired Compania de Seguros de Vida El Roble, S.A., or El Roble, a Chilean life insurance company. We have fully integrated the operations of El Roble with those of Principal Compania de Seguros de Vida Chile S.A. We distribute our annuity products through a network that consisted of over 60 captive agents and approximately 350 independent agents as of March 31, 2001. We also utilize sales representatives who sell through brokers. We also market life and health insurance products to small and medium-sized businesses and to individuals through brokers. Based upon assets, we were ranked as the fourth largest life insurance company in Chile as of March 31, 2001, according to the Superintendencia de Valores y Seguros, the Chilean regulatory agency for insurance companies. We also own 60% of Andueza & Principal Creditos Hipotecarios S.A., in a joint partnership arrangement with Andueza y Compania Agentes de Mutuos Hipotecarios S.A. Through this business, we sell and service mortgage loans in Chile.

MEXICO. In Mexico, we own Principal Mexico Compania de Seguros S.A. de C.V., or Principal Seguros, a life insurance company, Principal Afore S.A. de C.V., a private pension company which manages and administers individual retirement accounts under the mandatory privatized social security system in effect for all employees in Mexico and Principal Pensiones S.A. de C.V., or Principal Pensiones, an annuity company. Our focus is on both pre-retirement and post-retirement savings plans. We distributed Principal Afore S.A. de C.V.'s products and services through a dedicated sales force of approximately 550 sales representatives as of March 31, 2001, who sold directly to individuals. As of March 31, 2001, Principal Pensiones used 98 employed sales representatives and independent brokers to distribute annuities directly to customers. Our life insurance company, Principal Seguros, distributes its products through an array of independent agents and brokers.

LIFE AND HEALTH INSURANCE SEGMENT

Our Life and Health Insurance segment offers (1) individual life and disability insurance and (2) group life and health insurance throughout the United States.

Our Life and Health Insurance segment contributed 43%, 47%, 48% and 50% of our total operating revenues and 24%, 26%, 19% and 19% of our total operating earnings for the three months ended March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998, respectively. The table below shows the total operating revenues, operating earnings and assets of our Life and Health Insurance segment, by individual life and disability insurance, and group life and health insurance, respectively, for the periods indicated:

LIFE AND HEALTH INSURANCE
SELECTED FINANCIAL HIGHLIGHTS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999		1998	
	($ IN MILLIONS)							
OPERATING REVENUES(1):								
Individual Life and Disability Insurance	$ 381.0	38%	$ 1,472.9	36%	$1,409.8	35%	$1,386.0	36%
Group Life and Health Insurance	621.4	62	2,649.7	64	2,575.7	65	2,507.1	64
Total	$ 1,002.4	100%	$ 4,122.6	100%	$3,985.5	100%	$3,893.1	100%
OPERATING EARNINGS:								
Individual Life and Disability Insurance	$ 26.6	63%	$ 54.9	34%	$ 86.8	96%	$ 52.2	104%
Group Life and Health Insurance	15.9	37	107.4	66	3.9	4	(2.2)	(4)
Total	$ 42.5	100%	$ 162.3	100%	$ 90.7	100%	$ 50.0	100%
ASSETS:								
Individual Life and Disability Insurance	$ 8,635.5	83%	$ 8,534.2	82%	$7,965.1	80%	$7,501.7	82%
Group Life and Health Insurance	1,771.1	17	1,886.9	18	1,984.7	20	1,614.4	18
Total	$10,406.6	100%	$10,421.1	100%	$9,949.8	100%	$9,116.1	100%

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(1) Excludes net realized capital gains and their impact on recognition of front-end fee revenues.

INDIVIDUAL LIFE AND DISABILITY INSURANCE

We began as an individual life insurer in 1879, and our U.S. operations served approximately 750,000 individual policyholders with $80.8 billion of life insurance in force as of March 31, 2001. Individual life and disability insurance contributed 16%, 17%, 17% and 18% of our consolidated operating revenues for the three months ended March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998, respectively.

We offer a wide array of individual life and disability insurance products aimed at serving our customers' financial needs throughout their lives.

The table below shows selected GAAP financial information regarding our individual insurance products for the periods indicated:

INDIVIDUAL LIFE AND DISABILITY INSURANCE
SELECTED PRODUCT HIGHLIGHTS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
INTEREST-SENSITIVE LIFE INSURANCE:				
Number of policies	91,889	90,682	80,459	71,229
First-year premiums/Deposits	$ 38.9	$ 107.8	$ 71.0	$ 118.0
Premiums/Deposits	79.8	383.6	180.0	176.8
Future policy benefits/Policy account balance	1,575.4	1,559.2	1,231.2	1,068.2
Life insurance in force	20,233.9	19,566.8	15,633.2	12,726.6
TRADITIONAL LIFE INSURANCE:				
Number of policies	603,048	609,326	632,551	659,288
First-year premiums/Deposits	$ 8.4	$ 37.1	$ 38.6	$ 57.6
Premiums/Deposits	194.9	772.8	780.8	792.3
Future policy benefits/Policy account balance	5,499.6	5,468.1	5,289.1	5,083.6
Life insurance in force	60,582.0	60,389.0	59,581.1	59,415.9
DISABILITY INSURANCE:				
Number of policies	67,154	65,497	65,781	55,773
New sales (annualized first-year premium)	$ 4.2	$ 17.2	$ 15.1	$ 12.7
Premiums/Deposits	20.1	74.2	64.6	55.5
Future policy benefits/Policy account balance	262.8	254.0	190.1	169.6

STRATEGY

We seek to provide individual life and disability insurance products tailored to the needs of the owners and executives of small and medium-sized businesses, as well as other individuals. These products also complement the asset accumulation and group insurance products that we offer to businesses. Our strategic initiatives are to:

PROVIDE A TAILORED APPROACH TO BUSINESS NEEDS THAT CAN BE MET WITH LIFE INSURANCE. We create marketing materials, customized policy illustrations and ongoing reports for our customers and agent/brokers that show how our insurance policies can meet the needs of the customer. For example, when highly paid individuals, such as owners of small and medium-sized businesses, use variable life insurance to fund an "excess" 401(k)-like program, they receive reports similar to those they received from their actual 401(k) plans. We believe that the ability to provide more than a basic life insurance policy illustration is critical to success in this market. We also market retirement products and services to businesses for their executives. We believe there is significant opportunity to sell products and services providing retirement and other benefits to executives in addition to pension plans. We have specialized sales representatives to sell these products to businesses.

DESIGN OUR INDIVIDUAL DISABILITY PRODUCTS TO TARGET SMALL AND MEDIUM-SIZED BUSINESSES. We offer products to pay business overhead expenses for a disabled business owner and for the purchase by the other business owners of the disabled business owner's interests in the business. We also offer specialized multi-life underwriting programs that facilitate the provision of coverage to multiple executives in a single business.

INCREASE OUR DISTRIBUTION REACH TO SMALL AND MEDIUM-SIZED BUSINESSES. In 2000, we acquired a minority stake in Highland Capital Holding Corporation, a distribution company specializing in sales of insurance to businesses and high net worth individuals. Our products will be among those marketed by Highland Capital. In 2001, we acquired Executive Benefit Services, Inc., a company that specializes in the sale of executive benefit products and services to businesses. Through Executive Benefit Services, Inc., we have begun marketing our executive benefit products and services to our existing pension customers. We constantly seek to hire individuals experienced in selling insurance to small and medium-sized businesses.

PRODUCTS AND SERVICES

Our individual life and disability insurance products include:

- interest-sensitive life insurance, including universal life and variable universal life;

- traditional life insurance; and

- disability insurance.

INTEREST-SENSITIVE LIFE INSURANCE. Interest-sensitive life products include universal life and variable universal life insurance and offer life insurance protection for which both the premium and the death benefit may be adjusted by the policyholder. Our growth in individual life and disability insurance sales through December 31, 2000 has come mainly from variable universal life insurance products, which have grown at a compound annual growth rate of 49% from 1997 to 1999. Variable universal life insurance products represented 67% of our interest-sensitive life insurance premiums for the three months ended March 31, 2001. We credit premiums, net of specified expenses, to an account maintained for the policyholder. Specific charges are made against the account for the cost of insurance protection and expenses. For universal life contracts, the entire account balance is invested in our general account. Interest is credited to the policyholder's account based on the earnings on general account investments. For variable universal life contracts, the policyholder may allocate the account balance among our general account and a variety of separate account choices. Interest is credited on amounts allocated to the general account in the same manner as for universal life. Net investment performance on separate account investments is allocated directly to the policyholder accounts. The policyholder bears the investment risk on separate account investments. Our profitability is based on charging sufficient asset-based, premium-based and risk-based fees to cover the cost of insurance and expenses.

We believe that interest-sensitive life insurance products best meet the financial objectives of our target customers in the United States because they provide flexibility, protection and cash value accumulation. In particular, sales of life insurance in non-qualified executive benefit plans are primarily variable universal life products. Our variable universal life insurance products offer asset managers low policy charges and a range of features allowing them to tailor the policy to the needs of each client.

TRADITIONAL LIFE INSURANCE. Traditional life insurance includes participating whole life, adjustable life products and term life insurance products. Participating products and term life insurance products represented 13% and 4%, respectively, of our individual life and disability insurance sales for the three months ended March 31, 2001. Adjustable life insurance products provide a guaranteed benefit in return for the payment of a fixed premium and allow the policyholder to change the premium and face amount combination. Participating policyholders may receive policy dividends if the combined result of interest earnings, mortality experience and expenses is better than the assumptions used in setting the premium. Our profitability is based on keeping a portion of the favorable experience before crediting the remainder to policyholders. Term insurance products provide a guaranteed benefit for a specified period of time in return for the payment of a fixed premium. Policy dividends are not paid on term insurance. Our profitability is based on charging a premium that is sufficient to cover the cost of insurance and expenses while providing us with an appropriate return.

DISABILITY INSURANCE. Individual disability insurance products provide a benefit in the event of the disability of the insured. In most instances, this benefit is in the form of a monthly income. Disability insurance products represented 8% of our individual life and disability insurance sales for the three months ended March 31, 2001. In addition to income replacement, we offer products to pay business overhead expenses for a disabled business owner, and for the purchase by the other business owners of the disabled business owner's interests in the business. Our profitability is based on charging a premium that is sufficient to cover claims and expenses while providing us with an appropriate return.

MARKETS AND DISTRIBUTION

We sell our individual products in all 50 states and the District of Columbia. Our target market is owners and executives of small and medium-sized businesses, as well as other individuals. Cash value life insurance provides valuable benefits at death and funding for needs prior to death, including funding employee benefit liabilities, estate planning, business continuation or buy-out. We design, market and administer our products to meet these needs. Variable universal life insurance is popular for many reasons, including higher historical performance of equity investments resulting in a lower cost of insurance and an increase in values available while still alive. We also offer products specifically designed to meet the estate planning needs of business executives. Our individual disability products are also tailored to the needs of this market. Small and medium-sized businesses, their owners and executives represented 64% of individual life insurance sales and 46% of individual disability sales for the three months ended March 31, 2001, based on first-year annualized premium.

We distribute our individual insurance products primarily through our affiliated financial representatives and secondarily through independent brokers. Affiliated financial representatives were responsible for 74% of individual life insurance sales, based on first-year annualized premium for the three months ended March 31, 2001. We had

1,008 affiliated financial representatives in 50 offices as of March 31, 2001. Although they are independent contractors, we have a close tie with affiliated financial representatives and offer them benefits, training and access to tools and expertise. Independent brokers represented a larger percentage of individual disability sales with 53% of first-year annualized premium for the three months ended March 31, 2001.

GROUP LIFE AND HEALTH INSURANCE

We began offering group insurance in 1941. We served approximately 82,000 employers and provided products and services to 5.0 million covered members as of March 31, 2001. We were the 11th largest writer of group insurance in the United States based on combined group life and health premium for 1999, according to the 1999 National Underwriter Life and Health Statistical Report. We offer a broad array of group insurance products including medical, life, disability, dental and vision insurance. In addition, we also offer administrative services on a fee-for-service basis to large employers in the United States.

The tables below show the premium and premium equivalents, reserves, and the incurred loss ratios for our group insurance products sold in the United States for the periods indicated:

GROUP LIFE AND HEALTH INSURANCE
PREMIUM AND PREMIUM EQUIVALENTS

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
Life Insurance(1)	$ 59.3	$ 277.7	$ 273.6	$ 350.8
Disability Insurance	24.0	94.5	86.8	83.3
Medical Insurance(2)	410.0	1,815.6	1,876.7	1,817.3
Dental and Vision Insurance	90.1	340.4	270.0	216.6
Fee-for-service	422.3	1,502.2	1,287.6	1,083.8
Total	$1,005.7	$4,030.4	$3,794.7	$3,551.8

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(1) Includes $58.6 million of premium in 1998 related to our decision to terminate two large government reinsurance pools.
(2) Includes $98.4 million, $164.6 million and $121.2 million of Medicare supplement insurance, for the years ended December 31, 2000, 1999 and 1998, respectively, all of which we reinsured effective July 1, 2000.

GROUP LIFE AND HEALTH INSURANCE
RESERVES AND INCURRED LOSS RATIOS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
RESERVES:				
Life Insurance	$254.6	$259.5	$262.2	$256.3
Disability Insurance	271.6	269.0	259.5	254.0
Medical and Medicare Supplement Insurance(1)	308.8	316.5	396.7	300.3
Dental and Vision Insurance	30.4	28.2	23.8	20.6
Total Reserves	$865.4	$873.2	$942.2	$831.2
INCURRED LOSS RATIOS:				
Life Insurance	69%	70%	71%	79%
Disability Insurance	86	85	80	102
Medical and Medicare Supplement Insurance	82	83	90	85
Dental and Vision Insurance	77	76	77	77

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(1) Includes $41.5 million, $46.7 million, $68.2 million and $40.6 million of Medicare supplement insurance, for the three months ended March 31, 2001, and the years ended December 31, 2000, 1999 and 1998, respectively, all of which we reinsured effective July 1, 2000.

STRATEGY

Our goal is to provide a broad range of employee benefit products and services, particularly to small and medium-sized businesses. These products and services complement those of our other businesses. Our strategic initiatives in our group life and health insurance business are:

IMPROVE THE PROFITABILITY OF OUR GROUP MEDICAL BUSINESS

- Emphasize sale of medical insurance to groups of 51 to 500 employees. Our ability to adjust pricing based on our underwriting standards for these groups is subject to less regulation than for the more regulated 50 employee and under market, which comprised 78% of our medical premium for the three months ended March 31, 2001.

- Exit areas of the group medical business with unsatisfactory returns. We believe the following changes helped us improve the profitability of our group insurance business:

  -- We exited the "single life" group medical business for individuals under age 65 during 1997 and 1998 to focus on small and medium-sized businesses, where we believe we are well-positioned for success.

  -- In 1998, after determining that the HMO business did not meet our targeted financial returns on capital deployed, we terminated our active participation within that business.

  -- In 1998 and 1999, we exited the group medical insurance business in fourteen states where this business did not achieve our financial objectives.

  -- In January 2000, we ceased new sales, and in July 2000, we fully reinsured our Medicare supplement business due to poor financial results and an increasingly difficult regulatory environment, in order to focus on small and medium-sized businesses.

- Strengthen pricing discipline. For the year ended December 31, 2000, we have increased average premiums by 33% on renewals. These price increases contributed to an improvement in our medical loss ratio from 90% in 1999 to 82% for the three months ended March 31, 2001, for our ongoing medical business.

- Increase efficiency and decrease unit costs. Through the use of technology, we have achieved strong gains in productivity. We plan to deliver during 2001 an Internet-based service platform to handle employer/employee changes, electronic bill presentment and payment, communication of claim information and on-line contracts and employee booklets. We expect this service platform to ultimately lower our unit costs and make it easier to do business with us.

GROW OUR NON-MEDICAL PRODUCTS (LIFE, DISABILITY, DENTAL AND VISION)

- Dedicate more sales efforts to non-medical products. We intend to dedicate 30 non-medical sales representatives, wholesalers, to increase our focus on sales of our group, life, disability, dental and vision products. We are also expanding distribution through affiliated marketing arrangements such as general agents, non-proprietary alliances and Internet-based sales channels.

- Emphasize the sale of non-medical products separately from the sale of our medical products. Approximately 54% of our non-medical in-force contracts as of December 31, 1999 were not tied to a medical contract, whereas approximately 65% of our new non-medical sales for the year ended December 31, 2000 are independent of a medical contract.

- Concentrate on cross-selling additional non-medical products to existing non-medical customers including our asset accumulation customers. Many small and medium-sized businesses do not offer dental insurance to their employees. We believe the dental insurance market has the potential for sales growth.

PRODUCTS AND SERVICES

Our U.S. group insurance products and services include:

- life insurance;

- disability insurance;

- medical insurance;

- dental and vision insurance; and

- fee-for-service.

GROUP LIFE INSURANCE. Group life insurance provides coverage to employees and their dependents for a specified period. As of March 31, 2001, we had $71.5 billion of group life insurance in force covering 2.9 million individuals. We carry both traditional group life insurance that does not provide for accumulation of cash values and interest-sensitive group life insurance, commonly known as group universal life, which provides for accumulation of cash values. Our group life insurance business remains focused on the traditional annually renewable term product. Group term life and group universal life accounted for 90% and 10%, respectively, of our total group life insurance in force as of March 31, 2001. According to the 2000 LIMRA International, Inc. Sales and In Force Reports, we were ranked first in the United States in terms of the number of contracts/employer groups for both sales and existing business in 2000.

GROUP DISABILITY INSURANCE. Group disability insurance provides partial replacement of earnings to insured employees who become disabled. Our group disability products include both short-term and long-term disability. Long-term disability represented 58% of our group disability premiums for the three months ended March 31, 2001. In addition, we provide disability management services, or rehabilitation services, to assist individuals in returning to work as quickly as possible following disability. We also work with disability claimants to improve the approval rate of Social Security benefits, thereby reducing payment of benefits by the amount of Social Security payments received. For claims incurred more than two years prior to March 31, 2001, we achieved an 88% approval rate for such Social Security benefits. Our group disability business was ranked seventh in the United States as of December 31, 2000 in terms of number of contracts/employer groups in force, according to the 2000 LIMRA International, Inc. Sales and In Force Reports.

GROUP MEDICAL INSURANCE. Group medical insurance provides partial reimbursement of medical expenses for insured employees and their dependents. Employees are responsible for deductibles, co-payments and co-insurance. We believe our products are well-positioned to address our customers' preference for a variety of provider choices and preferred provider discounts. We do not offer unrestricted indemnity and no longer offer the pure HMO model.

GROUP DENTAL AND VISION INSURANCE. Group dental and vision insurance plans provide partial reimbursement for dental and vision expenses. As of March 31, 2001, we had over 36,000 group dental and vision insurance plans in force. As of December 31, 2000, we were the largest group indemnity dental insurer in terms of 2000 sales based on total indemnity, and the largest in terms of number of contracts/employer groups in force in 2000 based on total indemnity, according to the 2000 LIMRA International, Inc. Sales and In Force Reports.

FEE-FOR-SERVICE. We offer administration of group disability, medical, dental and vision services on a fee basis to larger employers.

MARKETS AND DISTRIBUTION

We market our group life, disability, medical, dental and vision insurance products to small and medium-sized businesses to complement our retirement services and individual insurance products. We market our fee-for-service administration capabilities to larger employers that self-insure their employees' health insurance benefits.

We sell our group life, disability, dental and vision coverages in all 50 states and the District of Columbia. We have chosen to market our medical insurance in 36 states which we believe have attractive market conditions. We consider a market to be attractive if there is a lack of deep penetration by HMOs and a favorable regulatory environment. We continually adapt our products and pricing to meet local market conditions.

We distribute our group insurance products through independent benefit brokers, consultants, financial planners and the same channels that sell our U.S. asset accumulation products. To reach these independent benefit brokers, consultants and financial planners, we employ three types of wholesale distributors:

- our medical sales representatives;

- our non-medical sales representatives; and

- an independent wholesale organization, Rogers Benefit Group, dedicated to marketing group life, health and disability insurance products.

As of March 31, 2001, we had 101 medical and non-medical sales representatives and 32 service representatives in 57 offices. Our medical and non-medical sales representatives accounted for 65%, 60%, 64% and 69% of our group insurance sales for the three months ended March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998, respectively. These representatives act as a unique combination of wholesalers and brokers. They are an integral

part of the sales process alongside the agent or independent broker. In addition to a high level of involvement in the sales process, the group sales force plays a key role in the ongoing servicing of the case by:

- providing local responsive services to our customers, such as renewing contracts, revising plans and solving any administrative issues;

- communicating the customers' needs and feedback to us; and

- helping employees understand the benefits of their plan.

Compensation for the group sales force is a blend of salary and production-based incentives.

Rogers Benefit Group is a marketing and service organization that represents major high quality insurance carriers specializing in individual and group medical programs, and group life, disability and dental plans. Our relationship with Rogers Benefit Group dates back to its creation in 1970. It accounted for 35%, 40%, 36% and 31% of our group insurance sales, for the three months ended March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998, respectively.

MORTGAGE BANKING SEGMENT

We began our residential lending activities in 1936. Our Mortgage Banking segment is primarily engaged in residential loan production and loan servicing in the United States. Through our wholly owned subsidiary, Principal Residential Mortgage, Inc., or PRMI, we originate, purchase, securitize, sell and service mortgage loans. We principally originate "A" quality home mortgages and do not originate sub-prime mortgages to any material degree, nor do we service or purchase any sub-prime mortgage loans. "A" quality loans are generally defined as loans eligible for sale to the Federal National Mortgage Association, or Fannie Mae, Federal Home Loan Mortgage Corporation, or Freddie Mac and the Government National Mortgage Association, or Ginnie Mae. According to Inside Mortgage Finance, based on the unpaid balance of $57.3 billion in mortgage loans in its servicing block, PRMI was ranked as the fourteenth largest mortgage servicer in the United States as of March 31, 2001 and was ranked seventeenth in production with $4.9 billion of new loans for the three months ended March 31, 2001.

Our Mortgage Banking segment contributed 5%, 4%, 5% and 4% of our total operating revenues and 14%, 8%, 12% and 22% of our total operating earnings for the three months ended March 31, 2001 and the years ended December 31, 2000, 1999 and 1998, respectively. The table below shows operating revenues, operating earnings and assets of our Mortgage Banking segment by loan production and loan servicing for the periods indicated:

MORTGAGE BANKING
SELECTED FINANCIAL HIGHLIGHTS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999		1998	
	($ IN MILLIONS)							
OPERATING REVENUES:(1)								
Loan Servicing	$ 88.9	74%	$ 313.8	87%	$ 286.5	72%	$ 235.4	69%
Loan Production	30.7	26	46.0	13	111.8	28	105.2	31
Total	$ 119.6	100%	$ 359.8	100%	$ 398.3	100%	$ 340.6	100%
OPERATING EARNINGS:								
Loan Servicing	$ 19.1	80%	$ 63.9	128%	$ 29.3	52%	$ 35.5	60%
Loan Production	4.8	20	(13.9)	(28)	27.5	48	23.3	40
Total	$ 23.9	100%	$ 50.0	100%	$ 56.8	100%	$ 58.8	100%
ASSETS:								
Total	$1,915.2	100%	$1,556.3	100%	$1,737.7	100%	$1,810.4	100%

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(1) Excludes net realized capital gains and their impact on recognition of front-end fee revenues.

STRATEGY

We pursue a balanced approach encompassing both loan servicing and loan production activities. Periods of low interest rates increase the value and volume of our loan production activities, while high interest rates increase the value of our loan servicing rights since mortgage prepayments decline as interest rates rise.

We believe that residential mortgages play a central role in the financial planning activities of Americans, as home ownership is a high priority for many households. As such, residential mortgages represent a component of our overall portfolio of customer-driven financial products and services. Our strategic initiatives include:

LEVERAGE OUR STRONG SERVICING PLATFORM

- Concentrate on operating efficiencies and lowering our unit costs. Our focus on servicing only "A" or "A-" quality loans ensures not only relatively high loan credit quality, but also allows us to better streamline our systems and processes, resulting in significant economies of scale. According to the 1999 Cost of Servicing Survey conducted by Mortgage Bankers Association of America, we serviced 1,670 loans per employee compared to an industry average of 1,119 as of December 31, 1999. For the three months ended March 31, 2001, we serviced 1,666 loans per employee. We decreased our servicing costs per loan from $62.54 in 1998 to $60.74 for the three months ended March 31, 2001, a reduction of 2.9%.

- Increase servicing revenue per loan. We have two sources of servicing revenues. First, we receive loan servicing fees from the guarantors or buyers of the mortgage-backed securities and loans we sell. Our servicing fee revenue per loan increased from $329 at the end of 1997 to $444 as of March 31, 2001, an increase of nearly 35%. The second source of revenue is ancillary fees we receive from the sale of optional products and services to our mortgage customers. For the three months ended March 31, 2001, we generated $13.81 per loan from the sale of such products and services, compared to $9.44 per loan in 1998.

- Use technology to enhance our customer service. We offer both an Internet site and touch-tone phone access to loan information. Both systems allow our customers to initiate various information and account requests which are performed entirely electronically.

RETAIN EXISTING CUSTOMERS. We believe we can profit from having existing mortgage customers conduct repeat business with us, either by refinancing an existing loan or by obtaining financing for a new home purchase. We actively market refinance and new home purchase opportunities to our existing customers via direct customer approaches such as targeted mail campaigns, in-bound and out-bound telephone sales and web-based lending applications. We offer simplified loan application, processing and closing services to existing customers, thereby lowering the cost of refinancing to both the customer and to us. We also offer a new mortgage application process to existing customers with less documentation than would be required by another lender.

CAPITALIZE ON THE CROSS-SALE OPPORTUNITIES WITH OUR OTHER LINES OF BUSINESS. While we have historically operated our mortgage banking operations independently of our other businesses, as of March 31, 2001, 63,612 of our 583,860 mortgage customers owned one or more of our other products. We believe this demonstrates potential for the cross-sale of our retirement investments and insurance products and services to our residential mortgage customers. We further believe that there is potential to cross-sell our mortgage banking offerings to the approximately 13 million customers of our other lines of business that did not have a residential mortgage relationship with us as of March 31, 2001.

LOAN PRODUCTION

Our loan production strategy is to manage our four distribution channels, correspondent lending, retail origination, wholesale lending and Mortgage Direct, in a manner that is consistent with our loan servicing strategy. We obtain new customers through each of our four production channels, with the majority being obtained through our correspondent lending and wholesale lending operations. Our Mortgage Direct operation, which is primarily involved with the retention of current servicing portfolio customers, refinances current loans and makes new loans to customers on new properties they purchase.

We originate and purchase conventional mortgage loans, mortgage loans insured by the Federal Housing Administration, or FHA, and mortgage loans partially guaranteed by the Department of Veterans Affairs, or VA. A majority of our conventional loans are conforming loans that qualify for inclusion in guarantee programs sponsored by Fannie Mae or Freddie Mac. The remainder of the conventional loans are non-conforming loans, such as jumbo loans with an original balance in excess of $275,000 or other loans that do not meet Fannie Mae or Freddie Mac guidelines. We neither originate nor purchase "B" or "C" mortgages, defined as lower credit quality loans. However, we are beginning to originate or purchase "A-" quality residential loans that are eligible for sale to Fannie Mae or Freddie Mac. We believe this segment presents opportunities to further penetrate the expanding U.S. housing market without presenting the types of risks inherent in the subprime sector.

The table below shows our loan production by loan type for the periods indicated:

MORTGAGE BANKING
LOAN PRODUCTION BY LOAN TYPE

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
CONVENTIONAL LOANS:				
Number of loans	22,124	35,418	56,731	64,630
Volume of loans	$3,244.8	$4,969.1	$ 7,307.4	$ 7,865.5
Percent of total volume	67%	60%	55%	65%
FHA/VA LOANS:				
Number of loans	13,797	31,093	57,592	44,009
Volume of loans	$1,610.1	$3,342.7	$ 5,999.9	$ 4,255.0
Percent of total volume	33%	40%	45%	35%
TOTAL LOANS:				
Number of loans	35,921	66,511	114,323	108,639
Volume of loans	$4,854.9	$8,311.8	$13,307.3	$12,120.5
Average loan amount ($ in thousands)	$ 135.2	$ 125.0	$ 116.4	$ 111.6

The table below shows our loan production by purpose and by interest rate type for the periods indicated:

MORTGAGE BANKING
LOAN PRODUCTION BY PURPOSE AND INTEREST RATE TYPE

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
Purchase	$2,177.6	$6,930.1	$ 9,106.8	$ 6,294.0
Refinance	2,677.3	1,381.7	4,200.5	5,826.5
Total	$4,854.9	$8,311.8	$13,307.3	$12,120.5
Fixed Rate	$4,798.0	$7,400.7	$12,449.4	$11,645.7
Adjustable Rate	52.3	854.1	683.8	388.9
Balloon	4.6	57.0	174.1	85.9
Total	$4,854.9	$8,311.8	$13,307.3	$12,120.5

We are actively engaged in the loan production business via the following distribution channels: correspondent lending; retail origination; wholesale and Mortgage Direct.

The table below shows our loan production by distribution channel for the periods indicated:

MORTGAGE BANKING
LOAN PRODUCTION BY DISTRIBUTION CHANNEL

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
VOLUME OF LOANS:				
Correspondent Lending	$3,499.9	$6,378.6	$10,545.4	$ 9,353.8
Retail Origination	363.4	734.4	1,088.8	1,721.1
Wholesale	926.5	1,079.7	1,247.1	761.3
Mortgage Direct	65.1	119.1	426.0	284.3
Total	$4,854.9	$8,311.8	$13,307.3	$12,120.5

CORRESPONDENT LENDING. As of March 31, 2001, we had contracts with 420 lending institutions across the United States to purchase prime credit quality loans on an ongoing basis. According to Inside Mortgage Finance, as of March 31, 2001, we were the tenth largest correspondent lender in the United States. High quality financial institutions are approved to do business with us only after we review their reputation, financial strength and lending expertise. Our "Correspondent Lending Service Center" on the Internet currently offers online access to loan registration, an interactive sellers' procedure manual, seller-specific rate/price quotations and simplified contact information. We are developing online technologies to offer automated underwriting systems, pipeline reporting and account management tools and electronic business-to-business capabilities for our correspondent sellers. Additionally, we are forging numerous alliances with third-party service providers to further streamline processes, improve productivity and provide outstanding customer service.

RETAIL ORIGINATION. Our retail channel originates prime credit quality mortgages through referrals from real estate agents, builders and personal contact with consumers through our nationwide network, which was comprised of 197 mortgage loan officers located in 51 offices as of March 31, 2001. We are developing automated exchange service agreements which will allow retail loan officers to establish reciprocal agreements with partners including realtors, builders, attorneys, title companies and others to and from our Internet website. This will enable us to build better relationships with such partners by providing access to relevant information via the Internet for their convenience.

WHOLESALE. Our wholesale channel, which we acquired in 1998, originates or purchases prime credit quality loans through 8 regional offices that worked directly with 1,492 participating mortgage loan brokers across the United States as of March 31, 2001. Mortgage loan brokers are approved only after a review of their reputation and mortgage lending expertise. Through the "Wholesale Lending Service Center" on our Internet website, wholesale lenders can retrieve contact information and seller specific interest rate quotations. We have developed plans and are working to provide online registration, automated underwriting system, pipeline reporting and account management services to our brokers. We are also developing electronic document delivery and execution capabilities for wholesale sellers to exchange secure documents with wholesale purchasers.

MORTGAGE DIRECT. Our Mortgage Direct channel originates prime credit quality mortgage loans through direct contact with current and new customers via telephone and the Internet. The goal of our Internet channel is to give our current customers access to a customer-focused website, allowing them to obtain home financing quickly, confidently and at an attractive value, while preserving acceptable profit margins for us. We believe that providing current customers with choice, ease of access, convenient processes and simplified procedures will cause a growing percentage of our customers to choose us for all of their home financing needs.

LOAN UNDERWRITING

Our guidelines for underwriting conventional conforming loans comply with the underwriting criteria employed by Fannie Mae and Freddie Mac. Our guidelines for underwriting FHA-insured and VA-guaranteed loans comply with the criteria established by those government entities. Our underwriting guidelines and property standards for conventional non-conforming loans are based on the underwriting standards employed by private investors for such loans. In addition, conventional loans having a loan-to-value ratio greater than 80% at origination, which are originated or purchased by us, are required to have private mortgage insurance. Insurance is either paid for by the borrower or the lender. Our underwriting standards generally allow loan-to-value at origination of up to 97% for mortgage loans with an original principal balance of up to $275,000. To determine whether a prospective borrower has sufficient monthly income available to meet: (1) the borrower's monthly obligation on the proposed mortgage loan and (2) monthly housing expenses and other financial obligations, we generally use the guidelines, techniques and technology tools provided by our investors.

SALE OF LOANS

As a mortgage banker, substantially all loans we originate or purchase are sold without recourse, subject in the case of VA loans to the limits of the VA's guaranty. Conforming conventional loans are generally pooled by us and exchanged for securities guaranteed by Fannie Mae or Freddie Mac. These securities are then sold to national or regional broker-dealers. Substantially all conventional loans securitized through Fannie Mae or Freddie Mac are sold, subject to representations and warranties made by us on a non-recourse basis, whereby foreclosure losses are generally a liability of Fannie Mae or Freddie Mac. We securitize substantially all of our FHA-insured and VA-guaranteed mortgage loans through Ginnie Mae. The FHA insures us against foreclosure loss and the VA provides partial guarantees against foreclosure loss. To guarantee timely and full payment of principal and interest on Fannie Mae, Freddie Mac and Ginnie Mae securities, we pay guarantee fees to these agencies.

LOAN SERVICING

We service residential mortgages in return for a servicing fee. Our servicing division receives and processes mortgage payments for home owners, remits payments to investors, holds escrow funds, contacts delinquent borrowers, supervises foreclosures and property dispositions and performs other miscellaneous duties related to loan

administration. We acquire only "A" or "A-" quality home mortgages for servicing. This practice simplifies the systems necessary for servicing and reduces the amount of time and money spent on collections and foreclosure administration activities. Our goal is to service, on a non-recourse basis, a majority of the loans that we originate. In addition, we periodically purchase bulk-servicing contracts, also on a non-recourse basis to us, on prime quality mortgage loans originated by other lenders. Our bulk purchases focus primarily on the acquisition of agency servicing packages. Factors which influence the management of the servicing portfolio include the expected long-term and short-term profitability of the servicing rights, customer retention objectives and the potential cross-selling of retirement investments and insurance products to home owners. Servicing contracts acquired through bulk purchases accounted for 31% of our mortgage servicing portfolio as of March 31, 2001.

The table below shows the composition of our servicing portfolio by type and performance for the periods indicated:

MORTGAGE BANKING
COMPOSITION OF SERVICING PORTFOLIO BY TYPE AND PERFORMANCE

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
Conventional Mortgage Loans	$35,868.6	$34,396.3	$30,679.4	$22,839.6
FHA-Insured Mortgage Loans	15,404.8	15,463.8	15,028.8	13,419.6
VA-Guaranteed Mortgage Loans	6,031.4	6,127.3	6,167.3	5,713.8
Total Servicing Portfolio	$57,304.8	$55,987.4	$51,875.5	$41,973.0
DELINQUENT MORTGAGE LOANS AND PENDING FORECLOSURES AT PERIOD END(1):				
30 Days	3.5%	4.4%	3.4%	4.3%
60 Days	0.8	1.2	1.1	1.2
90 Days or more	0.3	0.5	0.5	0.8
Total Delinquencies	4.6%	6.1%	5.0%	6.3%
Foreclosures Pending	1.4%	1.3%	1.1%	1.1%

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(1) Expressed as a percentage of the total number of loans serviced excluding sub-serviced loans.

The table below shows the composition of our servicing portfolio by interest rate as of March 31, 2001:

MORTGAGE BANKING
SERVICING PORTFOLIO BY INTEREST RATE
AS OF MARCH 31, 2001

INTEREST RATE	PRINCIPAL BALANCE	PERCENTAGE OF TOTAL	AVERAGE MATURITY (YEARS)
	($ IN MILLIONS)		
7% and under	$24,005.8	42%	24.1
7.01-8%	26,014.5	45	25.6
8.01-9%	6,966.5	12	25.7
9.01-10%	275.5	1	19.4
Over 10%	42.5	--	12.8
Total	$57,304.8	100%	25.0

The weighted-average interest rate in our servicing portfolio as of March 31, 2001 was 7.36%. As of March 31, 2001, fixed rate loans comprised 94% of the servicing portfolio and the weighted-average interest rate of the fixed-rate loans was 7.33%.

The table below shows the geographic distribution of our loan servicing portfolio as of March 31, 2001:

MORTGAGE BANKING
GEOGRAPHIC DISTRIBUTION OF LOAN SERVICING BY SIZE
AS OF MARCH 31, 2001

	PERCENTAGE OF PRINCIPAL BALANCE SERVICED
California	11.3%
Texas	6.6
Virginia	5.7
Ohio	4.8
Minnesota	4.6
Pennsylvania	4.2
North Carolina	4.2
Florida	3.4
New Jersey	3.4
Others(1)	51.8
	100.0%

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(1) No other state constitutes more than 3.4%.

RISK MANAGEMENT

Because mortgage lending is subject to asset valuation risk associated with changes in interest rates, we manage and hedge our servicing assets and our "in process" mortgage loan production pipeline. Using a balanced blend of proprietary analytical models and purchased interest rate risk management tools, we have developed a risk management protocol designed to reduce volatility.

We use derivatives, such as interest rate swaps and floors, principal-only swaps, Treasury futures contracts and options on Treasury futures contracts to hedge a portion of our portfolio of mortgage servicing rights from prepayment risk associated with changes in interest rates. To further minimize our exposure to interest rate fluctuations, we seek a balance between loan servicing and loan production, which are counter cyclical in nature. Historically, during periods of low interest rates and the resulting increase in refinancings, revenue generated by mortgage originations generally offsets revenue loss related to prepayment of mortgages for which we provide servicing.

In the normal course of business, our Mortgage Banking segment protects its position in mortgages by taking positions in the options, futures and cash markets. We hedge in the cash market by entering into forward delivery contracts, which require us to deliver loans or mortgage-backed securities at a future date at a preset price. All risk management activity is reviewed and approved by a committee of our senior management.

SEASONALITY

The mortgage banking industry is generally subject to seasonal trends. These trends reflect the general national pattern of selling and reselling of homes, although refinancings tend to be less seasonal and more closely related to changes in interest rates. This activity typically peaks during the spring and summer seasons and declines to lower levels from mid-November through February.

CORPORATE AND OTHER SEGMENT

Our Corporate and Other segment manages the assets representing capital that has not been allocated to any other segment. These assets are primarily comprised of fixed income securities, common stock and real estate investments. Included among the common stock are our holdings in Coventry Health Care, Inc., which had a carrying value of $128.9 million as of March 31, 2001. All debt service and interest expense and all inter-segment eliminations are included in this segment. The assets in excess of that needed by the four operating segments are held in the Corporate and Other segment.

Our Corporate and Other segment generated 2%, 1%, 1% and 5% of our total operating revenues and total operating earnings of $23.8 million, $67.7 million, $9.5 million and operating loss of $(44.3) million for the three months ended March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998, respectively. The table below shows operating revenues, operating earnings and assets for our Corporate and Other segment for the periods indicated:

CORPORATE AND OTHER
SELECTED FINANCIAL HIGHLIGHTS

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,	AS OF OR FOR THE YEAR ENDED DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
OPERATING REVENUES(1)	$ 35.0	$ 97.1	$ 61.9	$ 342.5
OPERATING EARNINGS (LOSS)	$ 23.8	$ 67.7	$ 9.5	$ (44.3)
ASSETS	$1,017.9	$957.8	$1,121.5	$3,075.9

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(1) Total revenues, excluding net realized capital gains and their impact on recognition of front-end fee revenues.

COMPETITION

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

Competition in the retirement services market is very fragmented. Our main competitors in this market include Fidelity, Nationwide, AXA, Mass Mutual and Manulife. We believe the infrastructure and system support needed to meet the needs of the small and medium-sized business market is a significant barrier to entry for our competitors. Many of our competitors in the mutual fund industry are larger, have been established for a longer period of time, offer less expensive products, have deeper penetration in key distribution channels and have more resources than we do. There were over 8,171 mutual funds in the United States as of December 31, 2000, according to the Investment Company Institute 2001 Mutual Fund Fact Book. The institutional asset management market has grown at a rapid pace over the last decade. Our primary competitors in this market are large institutional asset management firms, such as J.P. Morgan Chase, Morgan Stanley Asset Management and T. Rowe Price, many of which offer a broader array of investment products and services and are better known. The asset management business has relatively few barriers to entry and continually attracts new entrants. The variable annuity market is also highly competitive. As we expand into additional distribution channels for this product, we will face strong competition from Nationwide and Hartford. Competition in the international markets in which we operate comes primarily from local financial services firms and other international companies operating on a stand-alone basis or in a partnership with local firms, including ING, AXA, Allianz and AIG. In the highly competitive group life and health insurance business, our competitors include other insurers and health maintenance organizations such as The Northwestern Mutual Life Insurance Company, Manulife and Aetna. The mortgage banking industry is also highly competitive and fragmented and we compete with other mortgage bankers, commercial banks, savings and loan associations, credit unions and insurance companies such as Countrywide and Wells Fargo.

We believe we distinguish ourselves from our competitors through our:

- full-service platform;

- strong customer relationships;

- focus on financial performance; and

- performance-oriented culture.

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act of 1999, implementing fundamental changes in the regulation of the financial services industry in the United States. The Act permits mergers

that combine commercial banks, insurers and securities firms under one holding company. Under the Act, national banks retain their existing ability to sell insurance products in some circumstances. In addition, bank holding companies that qualify and elect to be treated as "financial holding companies" may engage in activities, and acquire companies engaged in activities, that are "financial" in nature or "incidental" or "complementary" to such financial activities. This includes acting as principal, agent or broker in selling life, property and casualty and other forms of insurance, including annuities. A financial holding company can own any kind of insurance company or insurance broker or agent, but its bank subsidiary cannot own the insurance company. Under state law, the financial holding company would need to apply to the insurance commissioner in the insurer's state of domicile for prior approval of the acquisition of the insurer. With the passage of the Gramm-Leach-Bliley Act, among other things, bank holding companies may acquire insurers, and insurance holding companies may acquire banks. The ability of banks to affiliate with insurance companies in the United States may materially adversely affect all of our product lines by substantially increasing the number, size and financial strength of potential competitors.

RATINGS

Insurance companies are assigned financial strength ratings by rating agencies based upon factors relevant to policyholders. Ratings provide both industry participants and insurance consumers meaningful information on specific insurance companies. Higher ratings generally indicate financial stability and a stronger ability to pay claims.

Principal Life has been assigned the following ratings as of March 31, 2001:

RATING AGENCY	FINANCIAL STRENGTH RATING	RATING STRUCTURE
A.M. Best Company, Inc.	A+ ("Superior") with a stable outlook	Second highest of 16 rating levels
Fitch IBCA, Inc. (formerly Duff & Phelps Credit Rating Company)	AA+ ("Very Strong") with a stable outlook	Second highest of 24 rating levels
Moody's Investors Service	Aa2 ("Excellent") with a stable outlook	Third highest of 21 rating levels
Standard & Poor's Rating Services	AA ("Very Strong") with a stable outlook	Third highest of 21 rating levels

A.M. Best's ratings for insurance companies range from "A++" to "S". A.M. Best indicates that "A++" and "A+" ratings are assigned to those companies that in A.M. Best's opinion have achieved superior overall performance when compared to the norms of the life insurance industry and have demonstrated a strong ability to meet their policyholder and other contractual obligations. Fitch's ratings for insurance companies range from "AAA" to "D". Fitch indicates that "AA" ratings are assigned to those companies that have demonstrated financial strength and a very strong capacity to meet policyholder and contractholder obligations on a timely basis. Moody's ratings for insurance companies range from "Aaa" to "C". Moody's indicates that "A ("Excellent")" ratings are assigned to those companies that have demonstrated excellent financial security. Standard & Poor's ratings for insurance companies range from "AAA" to "R". Standard & Poor's indicates that "AA" ratings are assigned to those companies that have demonstrated very strong financial security. In evaluating a company's financial and operating performance, these rating agencies review its profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its policy reserves and the experience and competency of its management.

We believe that our strong ratings are an important factor in marketing our products to our distributors and customers, since ratings information is broadly disseminated and generally used throughout the industry. Our ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders and are not evaluations directed toward the protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security, including our common stock.

REINSURANCE

Principal Life follows the standard industry practice of ceding portions of its life insurance risks to other insurance companies. This permits us to write larger policies than we would otherwise be comfortable retaining. Principal Life usually enters into annually renewable term insurance contracts, which focus on pure mortality risk. As of December 31, 2000, the amount of statutory premiums ceded to third-party reinsurers totaled $44.1 million. Principal Life's primary third-party reinsurer of individual life insurance policies at December 31, 2000 was Transamerica Occidental Life, which was rated A+ by A.M. Best. As of December 31, 2000, the individual life insurance in force ceded to Transamerica Occidental Life Insurance Company was $13.4 billion, which represented 9% of our total net life insurance in force. Of the remaining individual life reinsurers, no reinsurer has more than two percent of the total net insurance in force.

For U.S. individual life insurance, we reinsure mortality risk in excess of $7.5 million on any single life, whether that amount is from only one policy or multiple policies. For individual disability insurance, we generally retain between $4,000 and $10,000 of monthly benefit per insured life depending on the type of coverage.

We acquire reinsurance on both our U.S. group life and disability insurance. For group life insurance, we purchase catastrophic coverage for claims in excess of $1.0 million where three or more insureds are involved in a catastrophe. We also reinsure accidental death claims in excess of $500,000 for our group universal life product. For group disability, we retain no more than $3,500 of monthly benefit per insured life for cases with 2,000 or fewer employees. On larger cases, we cede 80% of the claim risk. Effective July 1, 2000, we entered into a reinsurance agreement with General & Cologne Life Re of America to reinsure 100% of our Medicare supplement insurance business. We do not reinsure our group dental or group vision products.

Reinsurance does not discharge our obligation to pay policy claims on the reinsured business. We remain responsible for paying claims, to the extent the reinsurer fails to pay such claims. As a result, we seek to work only with highly rated reinsurers that have passed an internal due diligence review. Nevertheless, there can be no assurance that all our reinsurers will pay the claims we make against them.

INSURANCE RESERVES

We establish and report liabilities on our balance sheet to meet our future obligations using both actuarial and GAAP principles. The reserves are based on actuarially recognized methods using prescribed mortality and morbidity tables and assumptions for estimating future policy benefits and claim experience. We expect these reserve amounts, along with future premiums to be received on the policy and investment earnings on these amounts, to be sufficient to meet our contractual and policy obligations. Reserves include amounts for claims incurred but not yet reported, claims reported but not yet paid and claims in the process of settlement. Our GAAP-based reserves may vary from those calculated using statutory accounting practices.

GROUP HEALTH INSURANCE RESERVES

The liability for unpaid group health claims, including medical, dental and short term disability insurance, is an estimate of the ultimate net cost of both reported and unreported losses not yet settled. We estimate this liability using actuarial analyses and case basis evaluations. The primary reserve technique is an evaluation of historical claim runout patterns and includes a provision for adverse claim development. We also consider factors such as new sales, terminations, seasonality, medical trend, claim backlog and past estimate accuracy. Although considerable variability is inherent in such estimates, we believe that the liability for unpaid claims is adequate. These estimates are continually reviewed and, as adjustments to this liability become necessary, such adjustments are reflected in current operations.

DISABILITY INSURANCE RESERVES

Reserves for long term disability insurance represent the present value of benefits for current claimants. Claim benefit payments on long term disability insurance policies consist of payments made monthly, in accordance with the contractual terms of the policy. These payments begin at the claimant's eligibility date as defined in the policy and end upon the earliest of the claimant's recovery, the expiration of contract limitations included in the policy or the claimant's death. The liability is estimated using industry mortality and morbidity data, adjusted for our experience under these policies and discounted at an appropriate rate of interest. Most policies provide for an elimination period between the occurrence of the event causing a claimant's disability and the date when such a claimant is eligible to receive disability payments. In addition, some claims may not be filed promptly on the eligibility date under the policy. Reserves for these incurred but not reported claims are based upon industry factors for disability incidence, rates of termination from disability and interest rates as modified by our experience under these policies.

LIFE INSURANCE RESERVES

We calculate reserves for incurred but unreported claims using our historical loss experience with due consideration to current in force volumes. Reserves for claims that are in course of settlement and/or resisted are calculated on a similar basis. The life waiver reserve liability measures the present value of waiver of premium benefits under our group life and group universal life insurance contracts. We use industry mortality and morbidity tables and an appropriate rate of interest discount to calculate this liability. Reserves for interest-sensitive life insurance are equal to cumulative premiums less charges plus interest which represents the account balances that accrue to the benefit of the policyholders. The reserve is identical to the current value of the customer's account on deposit with us.

UNDERWRITING AND PRICING

We follow detailed underwriting practices and procedures to assess and quantify the nature and size of risks we are willing to accept as well as the amount and type of reinsurance level appropriate for a particular type of risk.

For U.S. individual life insurance, the level of medical and other data collected on the insured varies by the size of the death benefit requested. For small death benefits, we gather limited medical information. For large death benefits, we require extensive medical, financial and other data from the insured. These practices and procedures are designed to result in policies that produce mortality experience consistent with the assumptions used in pricing the product. The

pricing of our products varies depending on the age, occupational classification, type/amount of coverage/features purchased, and additional ratings or exclusions based on medical history. For individual cases, we underwrite each prospective insured based on the client's occupation, financial and medical history.

For U.S. group medical insurance, we have created a sophisticated claim system that has the ability to automatically adjudicate a percentage of our claims without claims examiner intervention. We receive and convert claims to an electronic and imaged format to enable a paperless environment and to enhance work flow processes. Once the claim is in the system, it is identified to the member's account, verifying eligibility. We then determine if the services are covered under the contract and the amount of benefit payable, using the contract information built into our system. The adjudication process can be completed automatically by the system, if the claim meets all system requirements. If the claim cannot be processed automatically by the system, it will be assigned to a claims examiner to process. Once the benefit has been determined, a disbursement or explanation relative to our actions is submitted. As a quality control measure, we review selected claims. For group insurance sold to smaller employers, those with fewer than 50 employees, we obtain individual employee health statements that are used to determine the initial medical premium for the group or for non-medical coverages or to determine whether we will decline the business. For larger groups, we assess the health of the group through a variety of sources such as employee health statements, risk appraisal questionnaire or prior claim history.

For all of our U.S. individual insurance and group insurance products, we base our underwriting practices on the historical claims experience for that particular product. This experience includes not only the historical mortality and/or morbidity experience of our existing individual insurance contracts, but also the experience of the overall individual insurance industry and the general population. We actively monitor our underwriting standards relative to those of our competitors and our emerging claims experience to mitigate our exposure to higher risk business and to stay abreast of market trends. Our underwriters evaluate policy applications on the basis of the information provided by the applicant and others. We use a variety of medical tests to evaluate policy applications, depending on the size of the policy, the age of the applicant and other factors.

Product pricing is reflective of our underwriting standards and is based on our expected policyholder benefits, expenses, persistency and investment returns. We designed product specifications to protect us against greater than expected mortality and morbidity experience. We review pricing frequently to ensure that it is consistent with recent claims experience. We also employ both prospective and retroactive experience rating. Experience rating is the process by which the premium charged to a group policyholder reflects a credit for positive historical experience or a charge for poor experience. Small group pricing must also meet stringent regulatory requirements.

In developing pricing proposals for new general account guaranteed investment contracts, our underwriters estimate both base-line cash flows and also likely variance from the base-line due to plan participants reallocating assets from the "stable value" option of their defined contribution plans. Our underwriters utilize customized pricing models that generate plan-specific risk charges for each customer's book value payment provision. If these pricing models project the risk of losses exceeding customary thresholds, instead of rejecting the business, our underwriters can modify the proposal by suggesting the use of risk reduction techniques designed to shift some of the risk of redemptions back to the plan or to a third-party.

We underwrite immediate annuities using recent mortality experience and an assumption of continued improvement in longevity. We underwrite deferred annuities by analyzing not only mortality risk but also the expected time to retirement.

In Argentina, Chile and Mexico, we use underwriting and pricing practices appropriate for the specific market where we conduct our operations.

PROPERTIES

We own 26 properties in our home office complex in Des Moines, Iowa and in various other locations. We lease office space for various offices located throughout the United States and internationally. The normal lease term is 3 to 5 years, but some leases have terms of up to 10 years. Our annual rental expense under these leases aggregated approximately $48.8 million for leases in place as of March 31, 2001. We believe that our owned and leased properties are suitable and adequate for our current business operations.

LEGAL PROCEEDINGS

We are regularly involved in litigation, both as a defendant and as a plaintiff but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of medical insurance, life insurance, annuities and residential mortgages. In addition, state regulatory bodies, such as state insurance departments, the SEC, the National Association of Securities Dealers, Inc., the Department of Labor and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers.

Recently, companies in the life insurance business have faced extensive claims, including class action lawsuits, alleging improper life insurance sales practices. Principal Life is currently a defendant in two purported class action lawsuits alleging improper sales practices. We have reached an agreement in principle to settle both of those lawsuits. The settlement has received court approval. We have established reserves at a level we believe sufficient to cover the cost of the settlement.

While we cannot predict the outcome of any pending or future litigation, examination or investigation, we do not believe that any pending matter will have a material adverse effect on our business, financial condition or results of operations.

CUSTOMERS

We had approximately thirteen million customers as of March 31, 2001, which include employer sponsors of retirement and group insurance products and services, employees and their covered dependents under employee benefit arrangements, institutional investment management clients, individual insurance policyholders, residential mortgage loan borrowers, mutual fund shareholders and banking customers.

EMPLOYEES

As of March 31, 2001, we had 17,363 employees. None of our employees is subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

INVESTMENTS

We had total consolidated assets as of March 31, 2001 of $82.4 billion, of which $44.0 billion were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not bear investment risk. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets. Of our invested assets, $42.9 billion were held by our U.S. operations and the remaining $1.1 billion were held by our International Asset Management and Accumulation segment.

U.S INVESTMENT OPERATIONS

Our U.S. invested assets are managed by Principal Capital Management, a subsidiary of Principal Life. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders' benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to three primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;

- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves; and

- equity risk, relating to adverse fluctuations in a particular common stock.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification. Our Investment Committee, appointed by our board of directors, establishes all investment policies and reviews and approves all investments. There are nine members on the Investment Committee, two of whom are members of our board of directors. The remaining seven members are senior management members representing various areas of our company.

Our Fixed Income Securities Committee, consisting of fixed income securities senior management members, approves the credit rating for the fixed maturity securities we purchase. Teams specializing in residential mortgage-backed securities, commercial mortgage-backed securities and public below investment grade securities monitor these investments. We establish a credit reviewed list of approved public issuers to provide an efficient way for our portfolio managers to purchase liquid bonds for which credit review has already been completed. Issuers remain on the list for 6 months unless removed by our analyst. The analyst monitors issuers on the list on a continuous basis with a formal review documented every 6 months.

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

- material declines in the issuer's revenues or margins;

- significant management or organizational changes;

- significant uncertainty regarding the issuer's industry;

- debt service coverage or cash flow ratios that fall below industry-specific thresholds;

- violation of financial covenants; and

- other business factors that relate to the issuer.

A dedicated risk management team is responsible for centralized monitoring of the commercial mortgage portfolio. We apply a variety of strategies to minimize credit risk in our commercial mortgage loan portfolio. When considering the origination of new commercial mortgage loans, we review the cash flow fundamentals of the property, make a physical assessment of the underlying security, conduct a comprehensive market analysis and compare against industry lending practices. We use a proprietary risk rating model to evaluate all new and a majority of existing loans within the portfolio. The proprietary risk model is designed to stress projected cash flows under simulated economic and market downturns. Our lending guidelines are designed to encourage 75% or less loan-to-value ratios and a debt service coverage ratio of at least 1.2 times. We analyze investments outside of these guidelines based on cash flow quality, tenancy and other factors. From 1998 through March 31, 2001, the weighted average loan-to-value ratio at origination for brick and mortar commercial mortgages in our portfolio was in the 65%-68% range and debt service coverage ratios at loan inception in the 1.6-1.7 times range.

We have limited exposure to equity risk in our common stock portfolio. Equity securities accounted for only 1% of our U.S. invested assets as of March 31, 2001.

Our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations. For further information on our management of interest rate risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Quantitative and Qualitative Information about Market Risk".

OVERALL COMPOSITION OF U.S. INVESTED ASSETS

U.S. invested assets as of March 31, 2001 were predominantly of high quality and broadly diversified across asset class, individual credit, industry and geographic location. As shown in the following table, the major categories of U.S. invested assets are fixed maturity securities and commercial mortgages. The remainder is invested in real estate, equity securities and other assets. In addition, policy loans are included in our invested assets. We combined our invested assets in the Closed Block with invested assets outside the Closed Block in view of the similar asset quality characteristics of the two portfolios. The following discussion analyzes the composition of U.S. invested assets, which includes $3,987.0 million in invested assets of the Closed Block as of March 31, 2001, but excludes invested assets of the participating separate accounts.

U.S. INVESTED ASSETS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Fixed maturity securities, available-for-sale								
Public	$16,779.2	39%	$14,263.6	35%	$ 9,632.8	24%	$ 8,157.6	21%
Private	11,523.3	27	11,611.4	28	12,951.5	32	13,674.9	34
Equity securities, available-for-sale	580.9	1	666.0	2	768.1	2	995.7	2
Mortgage loans								
Commercial	10,491.7	24	10,775.3	26	12,588.9	31	12,157.2	31
Residential	716.8	2	550.5	1	651.0	2	997.4	2
Real estate held for sale	488.8	1	695.4	2	1,033.4	3	1,049.8	3
Real estate held for investment	689.0	2	696.4	2	1,167.8	3	1,535.4	4
Policy loans	819.3	2	803.6	2	780.5	2	766.2	2
Other investments	767.8	2	681.2	2	514.0	1	339.8	1
Total invested assets	$42,856.8	100%	$40,743.4	100%	$40,088.0	100%	$39,674.0	100%
Cash and cash equivalents	408.5		750.1		368.4		416.2	
Total invested assets and cash	$43,265.3		$41,493.5		$40,456.4		$40,090.2	

We actively manage public fixed maturity securities, including our portfolio of residential mortgage-backed securities, in order to provide liquidity and enhance yield and total return. Our residential mortgage-backed securities are managed to ensure that the securities we hold trade close to or below par in order to manage prepayment risk. This active management has resulted in the realization of capital gains and losses with respect to such investments. In 1999 and 1998, we repositioned our investment portfolio by selling invested assets with lower yields, primarily equity securities and real estate, and reinvesting the proceeds in assets with higher yields, primarily debt securities.

U.S. INVESTMENT RESULTS

The yield on U.S. invested assets and on cash and cash equivalents, excluding net realized gains and losses, was 7.7% as of March 31, 2001 and 7.5%, 7.4% and 7.2% for the years ended December 31, 2000, 1999 and 1998, respectively.

The table below illustrates the yields on average assets for each of the components of our investment portfolio for the three months ended March 31, 2001, and the years ended December 31, 2000, 1999 and 1998:

U.S. INVESTED ASSETS
YIELDS BY ASSET TYPE

	AS OF OR FOR THE THREE MONTHS ENDED MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999		1998	
	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT
				($ IN MILLIONS)				
Fixed maturity securities, available-for-sale								
Gross investment income(1)	7.7%	$ 523.5	7.5%	$ 1,813.3	7.4%	$ 1,651.4	7.2%	$ 1,546.0
Net realized capital gains (losses)	(0.4)	(25.3)	(0.5)	(129.6)	(0.5)	(104.3)	0.1	28.8
Total		$ 498.2		$ 1,683.7		$ 1,547.1		$ 1,574.8
Ending assets (at carrying value)		$28,302.5		$25,875.0		$22,584.3		$21,832.5
Equity securities, available-for-sale								
Gross investment income(1)	2.4%	$ 3.8	9.4%	$ 67.1	4.4%	$ 39.2	2.7%	$ 30.5
Net realized capital gains (losses)	(23.0)	(35.8)	11.2	80.3	43.2	381.4	27.3	302.7
Total		$ (32.0)		$ 147.4		$ 420.6		$ 333.2
Ending assets (at carrying value)		$ 580.9		$ 666.0		$ 768.1		$ 995.7
Mortgage loans -- Commercial								
Gross investment income(1)	7.8%	$ 207.3	8.2%	$ 955.6	8.1%	$ 1,005.8	8.5%	$ 1,053.8
Net realized capital gains (losses)	0.3	8.8	0.1	8.6	(0.1)	(8.4)	0.1	6.3
Total		$ 216.1		$ 964.2		$ 997.4		$ 1,060.1
Ending assets (at carrying value)		$10,491.7		$10,775.3		$12,588.9		$12,157.2
Mortgage loans -- Residential								
Gross investment income(1)	7.1%	$ 11.2	9.3%	$ 56.1	11.9%	$ 98.3	10.3%	$ 89.2
Net realized capital gains (losses)	--	--	--	--	--	--	--	--
Total		$ 11.2		$ 56.1		$ 98.3		$ 89.2
Ending assets (at carrying value)		$ 716.8		$ 550.5		$ 651.0		$ 997.4
Real estate								
Gross investment income(1)	19.7%	$ 63.2	9.5%	$ 170.8	7.8%	$ 187.1	5.6%	$ 143.2
Net realized capital gains (losses)	6.5	20.9	4.6	82.3	2.4	56.4	4.7	120.6
Total		$ 84.1		$ 253.1		$ 243.5		$ 263.8
Ending assets (at carrying value)		$ 1,177.8		$ 1,391.8		$ 2,201.2		$ 2,585.2
Policy loans								
Gross investment income(1)	7.0%	$ 14.3	7.0%	$ 55.1	6.5%	$ 50.2	6.7%	$ 50.9
Net realized capital gains (losses)	--	--	--	--	--	--	--	--
Total		$ 14.3		$ 55.1		$ 50.2		$ 50.9
Ending assets (at carrying value)		$ 819.3		$ 803.6		$ 780.5		$ 766.2
Cash and cash equivalents								
Gross investment income(1)	(1.1)%	$ (1.6)	4.3%	$ 24.0	5.1%	$ 20.0	1.1%	$ 5.1
Net realized capital gains (losses)	--	--	(0.5)	(2.7)	--	(0.1)	(0.1)	(0.2)
Total		$ (1.6)		$ 21.3		$ 19.9		$ 4.9
Ending assets (at carrying value)		$ 408.5		$ 750.1		$ 368.4		$ 416.2
Other investments								
Gross investment income(1)	10.4%	$ 18.9	10.4%	$ 62.0	9.2%	$ 39.4	47.3%	$ 106.5
Net realized capital gains (losses)	(6.5)	(11.8)	16.4	98.2	16.6	70.8	(2.6)	(5.9)
Total		$ 7.1		$ 160.2		$ 110.2		$ 100.6
Ending assets (at carrying value)		$ 767.8		$ 681.2		$ 514.0		$ 339.8
Total before investment expenses								
Gross investment income	7.9%	$ 840.6	7.8%	$ 3,204.0	7.7%	$ 3,091.4	7.5%	$ 3,025.2
Net realized capital gains (losses)	(0.4)	(43.2)	0.3	137.1	1.0	395.8	1.1	452.3
Total		$ 797.4		$ 3,341.1		$ 3,487.2		$ 3,477.5
Investment expenses	0.3%	$ 27.0	0.3%	$ 136.7	0.3%	$ 113.5	0.3%	$ 139.2
Net investment income	7.7%	$ 813.6	7.5%	$ 3,067.3	7.4%	$ 2,977.9	7.2%	$ 2,886.0

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(1) Yields, which are annualized for interim periods, are based on quarterly average asset carrying values for the three months ended March 31, 2001, and annual average asset carrying values for the years ended December 31, 2000, 1999 and 1998.

FIXED MATURITY SECURITIES

We have classified all of our fixed maturity and equity securities as available-for-sale. Accordingly, we mark such securities to market, with

unrealized gains and losses excluded from earnings and reported as a separate component of equity on our balance sheet. We write down to fair value securities whose value is deemed other than temporarily

impaired. We record writedowns as realized losses included in earnings and adjust the cost basis of such securities to fair value. The new cost basis is not changed for subsequent recoveries in value.

Fixed maturity securities consist of short-term investments, publicly traded debt securities, privately placed debt securities and small amounts of redeemable preferred stock, and represented 66% of total U.S. invested assets as of March 31, 2001 and 63%, 56% and 55% as of December 31, 2000, 1999 and 1998, respectively. The fixed maturity securities portfolio was comprised, based on carrying amount, of 59% in publicly traded fixed maturity securities and 41% in privately placed fixed maturity securities as of March 31, 2001, and 55% in publicly traded fixed maturity securities and 45% in privately placed fixed maturity securities as of December 31, 2000. Included in the privately placed category as of March 31, 2001 were $3.6 billion of securities eligible for resale to qualified institutional buyers under Rule 144A under the Securities Act of 1933. Fixed maturity securities were diversified by category of issuer as of March 31, 2001, and for the years ended December 31, 2000, 1999 and 1998 as shown in the table below:

U.S. INVESTED ASSETS
FIXED MATURITY SECURITIES BY TYPE OF ISSUER

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 10.6	--%	$ 21.3	--%	$ 161.3	1%	$ 300.0	1%
States and political subdivisions	295.6	1	295.7	1	167.5	1	147.7	1
Non-U.S. governments	662.6	2	604.3	2	490.4	2	295.2	1
Corporate-public	10,972.7	39	8,740.8	34	5,104.3	22	3,925.1	18
Corporate-private	9,706.9	34	9,796.6	38	11,218.0	50	12,085.7	56
Mortgage-backed securities and other asset backed securities	6,654.1	24	6,416.3	25	5,442.8	24	5,078.8	23
Total fixed maturities	$28,302.5	100%	$25,875.0	100%	$22,584.3	100%	$21,832.5	100%

The international exposure in our U.S. invested assets totaled $4,015.3 million, or 14% of total fixed maturity securities, as of March 31, 2001, comprised of corporate and foreign government fixed maturity securities. Of the $4,015.3 million, investments totaled $1,090.1 million in the United Kingdom, $798.9 million in the continental European Union, $495.1 million in Asia, $375.6 million in Australia, $373.1 million in South America and $27.8 million in Japan. The remaining $854.7 million was invested in 16 other countries. All international fixed maturity securities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturity securities investments to 15% of total statutory general account assets with a 4% limit in emerging markets.

The Securities Valuation Office of the NAIC evaluates most of the fixed maturity securities that we and other U.S. insurance companies hold. The Securities Valuation Office evaluates the bond investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories. The NAIC DESIGNATIONS closely mirror the nationally recognized securities rating organizations' credit ratings for marketable bonds. NAIC Designations 1 and 2 include bonds considered investment grade by such rating organizations. Bonds are considered investment grade when rated "Baa3" or higher by Moody's, or "BBB-" or higher by Standard & Poor's. NAIC Designations 3 through 6 are referred to as below investment grade. Bonds are considered below investment grade when rated "Ba1" or lower by Moody's, or "BB+" or lower by Standard & Poor's.

The tables below present our publicly traded, privately placed and total fixed maturity securities by NAIC Designation and the equivalent ratings of the nationally recognized securities rating organizations as of March 31, 2001, and December 31, 2000, 1999 and 1998, as well as the percentage, based on estimated fair value, that each designation comprises:

U.S. INVESTED ASSETS
PUBLICLY TRADED FIXED MATURITY SECURITIES BY CREDIT QUALITY

NAIC RATING	RATING AGENCY EQUIVALENT	AS OF MARCH 31, 2001 AMORTIZED COST	AS OF MARCH 31, 2001 CARRYING AMOUNT	AS OF MARCH 31, 2001 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 2000 AMORTIZED COST	AS OF DECEMBER 31, 2000 CARRYING AMOUNT	AS OF DECEMBER 31, 2000 % OF TOTAL CARRYING AMOUNT
		($ IN MILLIONS)					
1	Aaa/Aa/A	$10,209.8	$10,635.6	63%	$9,029.4	$ 9,283.0	65%
2	Baa	5,403.3	5,545.4	33	4,432.3	4,492.8	32
3	Ba	439.3	444.5	3	451.7	434.1	3
4	B	109.6	103.9	1	44.4	21.9	--
5	Caa and lower	36.8	25.1	--	27.7	27.3	--
6	In or near default	54.5	24.7	--	14.9	4.5	--
	Total public fixed maturities	$16,253.3	$16,779.2	100%	$14,000.4	$14,263.6	100%

NAIC RATING	AS OF DECEMBER 31, 1999 AMORTIZED COST	AS OF DECEMBER 31, 1999 CARRYING AMOUNT	AS OF DECEMBER 31, 1999 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 1998 AMORTIZED COST	AS OF DECEMBER 31, 1998 CARRYING AMOUNT	AS OF DECEMBER 31, 1998 % OF TOTAL CARRYING AMOUNT
	($ IN MILLIONS)					
1	$6,991.9	$6,888.4	72%	$6,051.4	$6,294.3	77%
2	2,458.3	2,424.8	25	1,423.9	1,491.7	19
3	234.8	233.0	3	325.2	345.2	4
4	35.7	36.0	--	6.8	6.5	--
5	27.3	28.3	--	14.9	3.8	--
6	58.0	22.3	--	50.9	16.1	--
	$9,806.0	$9,632.8	100%	$7,873.1	$8,157.6	100%

U.S. INVESTED ASSETS
PRIVATELY PLACED FIXED MATURITY SECURITIES BY CREDIT QUALITY

NAIC RATING	RATING AGENCY EQUIVALENT	AS OF MARCH 31, 2001 AMORTIZED COST	AS OF MARCH 31, 2001 CARRYING AMOUNT	AS OF MARCH 31, 2001 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 2000 AMORTIZED COST	AS OF DECEMBER 31, 2000 CARRYING AMOUNT	AS OF DECEMBER 31, 2000 % OF TOTAL CARRYING AMOUNT
		($ IN MILLIONS)					
1	Aaa/Aa/A	$5,055.0	$ 5,189.8	45%	$5,155.9	$ 5,213.9	45%
2	Baa	4,625.5	4,743.2	41	4,749.2	4,822.0	42
3	Ba	1,157.6	1,159.3	10	1,151.3	1,126.5	10
4	B	319.6	310.6	3	349.5	335.4	3
5	Caa and lower	55.1	25.1	--	73.3	40.7	--
6	In or near default	134.8	95.3	1	111.0	72.9	--
	Total public fixed maturities	$11,347.6	$11,523.3	100%	$11,590.2	$11,611.4	100%

NAIC RATING	AS OF DECEMBER 31, 1999 AMORTIZED COST	AS OF DECEMBER 31, 1999 CARRYING AMOUNT	AS OF DECEMBER 31, 1999 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 1998 AMORTIZED COST	AS OF DECEMBER 31, 1998 CARRYING AMOUNT	AS OF DECEMBER 31, 1998 % OF TOTAL CARRYING AMOUNT
	($ IN MILLIONS)					
1	$5,775.8	$ 5,652.9	44%	$5,525.4	$ 5,837.6	42%
2	5,648.6	5,561.8	43	5,968.2	6,285.9	46
3	1,403.7	1,355.9	10	1,174.9	1,215.7	9
4	223.9	210.7	2	251.6	249.8	2
5	112.4	110.0	1	9.3	9.2	--
6	81.1	60.2	--	105.5	76.7	1
	$13,245.5	$12,951.5	100%	$13,034.9	$13,674.9	100%

U.S. INVESTED ASSETS
TOTAL FIXED MATURITY SECURITIES BY CREDIT QUALITY

NAIC RATING	RATING AGENCY EQUIVALENT	AS OF MARCH 31, 2001 AMORTIZED COST	AS OF MARCH 31, 2001 CARRYING AMOUNT	AS OF MARCH 31, 2001 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 2000 AMORTIZED COST	AS OF DECEMBER 31, 2000 CARRYING AMOUNT	AS OF DECEMBER 31, 2000 % OF TOTAL CARRYING AMOUNT
		($ IN MILLIONS)					
1	Aaa/Aa/A	$15,264.8	$15,825.4	56%	$14,185.3	$14,496.9	56%
2	Baa	10,028.8	10,288.6	36	9,181.5	9,314.8	36
3	Ba	1,596.9	1,603.8	6	1,603.0	1,560.6	6
4	B	429.2	414.5	2	393.9	357.3	2
5	Caa and lower	91.9	50.2	--	101.0	68.0	--
6	In or near default	189.3	120.0	--	125.9	77.4	--
	Total public fixed maturities	$27,600.9	$28,302.5	100%	$25,590.6	$25,875.0	100%

NAIC RATING	AS OF DECEMBER 31, 1999 AMORTIZED COST	AS OF DECEMBER 31, 1999 CARRYING AMOUNT	AS OF DECEMBER 31, 1999 % OF TOTAL CARRYING AMOUNT	AS OF DECEMBER 31, 1998 AMORTIZED COST	AS OF DECEMBER 31, 1998 CARRYING AMOUNT	AS OF DECEMBER 31, 1998 % OF TOTAL CARRYING AMOUNT
	($ IN MILLIONS)					
1	$12,767.7	$12,541.3	56%	$11,576.8	$12,131.9	55%
2	8,106.9	7,986.6	35	7,392.1	7,777.6	36
3	1,638.4	1,588.9	7	1,500.1	1,560.9	7
4	259.6	246.7	1	258.4	256.3	1
5	139.8	138.3	1	24.2	13.0	--
6	139.1	82.5	--	156.4	92.8	1
	$23,051.5	$22,584.3	100%	$20,908.0	$21,832.5	100%

We believe that our long-term fixed maturity securities portfolio is well diversified among industry types and between publicly traded and privately placed securities. Each year we direct the majority of our net cash inflows into investment grade fixed maturity securities. We typically invest up to 7% of general account cash flow in below investment grade assets. While the general account investment returns have improved due to the below investment grade asset class, we manage its growth strategically by limiting it to 10% of the total fixed maturity securities portfolio.

We invest in privately placed fixed maturity securities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide broader access to management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by federal and state securities laws and illiquid trading markets. As of March 31, 2001, the percentage, based on estimated fair value, of total publicly traded and privately placed fixed maturity securities that were investment grade with an NAIC Designation 1 or 2 was 92%.

The tables below show the carrying amount of our corporate fixed maturity securities by industry category, as well as the percentage of the total corporate portfolio that each industry category comprises as of March 31, 2001, and December 31, 2000, 1999, and 1998. The tables also show by industry category the relative amounts of publicly traded and privately placed securities.

U.S. INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF MARCH 31, 2001

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
			($ IN MILLIONS)			
INDUSTRY CLASS						
Transportation and Public Utilities	$ 4,102.8	37%	$1,987.0	20%	$ 6,089.8	29%
Finance, Insurance and Real Estate	3,325.9	30	2,170.4	22	5,496.3	27
Manufacturing	2,150.3	20	2,825.9	29	4,976.2	24
Mining	611.5	6	946.8	10	1,558.3	8
Retail	416.3	4	793.5	8	1,209.8	6
Services	323.8	3	723.2	8	1,047.0	5
Agriculture, Forestry and Fishing	35.7	--	50.9	1	86.6	--
Construction	3.2	--	121.4	1	124.6	1
Public Administration	3.2	--	87.8	1	91.0	--
Total	$10,972.7	100%	$9,706.9	100%	$20,679.6	100%

U.S. INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 2000

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
			($ IN MILLIONS)			
INDUSTRY CLASS						
Transportation and Public Utilities	$3,197.1	37%	$1,957.9	20%	$ 5,155.0	28%
Finance, Insurance and Real Estate	2,657.1	30	2,300.9	24	4,958.0	27
Manufacturing	1,678.9	19	2,845.9	29	4,524.8	24
Mining	496.1	6	936.8	10	1,432.9	8
Services	351.5	4	686.3	7	1,037.8	5
Retail	295.2	3	795.9	8	1,091.1	6
Agriculture, Forestry and Fishing	34.7	1	41.2	--	75.9	--
Public Administration	20.3	--	111.4	1	131.7	1
Construction	9.9	--	120.3	1	130.2	1
Total	$8,740.8	100%	$9,796.6	100%	$18,537.4	100%

U.S. INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 1999

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)					
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$2,178.0	43%	$ 2,426.8	22%	$ 4,604.8	28%
Manufacturing	1,280.3	25	3,793.4	34	5,073.7	31
Transportation and Public Utilities	655.1	13	2,033.0	18	2,688.1	16
Services	374.2	7	803.6	7	1,177.8	7
Mining	296.3	6	963.9	9	1,260.2	8
Retail	247.8	5	923.9	8	1,171.7	7
Agriculture, Forestry and Fishing	60.1	1	42.6	--	102.7	1
Public Administration	9.6	--	70.0	1	79.6	1
Construction	2.9	--	160.8	1	163.7	1
Total	$5,104.3	100%	$11,218.0	100%	$16,322.3	100%

U.S. INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 1998

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)					
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$1,713.6	44%	$ 2,241.1	18%	$ 3,954.7	25%
Manufacturing	1,131.3	29	4,582.8	38	5,714.1	36
Transportation and Public Utilities	459.6	12	2,245.0	18	2,704.6	17
Retail	244.1	6	944.7	8	1,188.8	7
Mining	221.8	6	953.0	8	1,174.8	7
Services	100.2	2	788.4	7	888.6	6
Public Administration	35.9	1	127.7	1	163.6	1
Construction	18.6	--	142.6	1	161.2	1
Agriculture, Forestry and Fishing	--	--	60.4	1	60.4	--
Total	$3,925.1	100%	$12,085.7	100%	$16,010.8	100%

As of March 31, 2001, our largest unaffiliated single concentration of fixed maturity securities consisted of $345.7 million of corporate bonds by Ford Motor Company and its affiliates. This represented approximately 1% of our total U.S. invested assets as of March 31, 2001. No other individual non-government issuer represented more than 1% of U.S. invested assets.

We held $6,654.1 million of mortgage-backed and asset-backed securities as of March 31, 2001, and $6,416.3 million, $5,442.8 million and $5,078.8 million as of December 31, 2000, 1999 and 1998, respectively. The table below presents the types of mortgage-backed securities ("MBSs"), as well as other asset-backed securities, held as of the dates indicated.

U.S. INVESTED ASSETS
MORTGAGE AND ASSET-BACKED SECURITIES

	CARRYING AMOUNT AS OF MARCH 31,	CARRYING AMOUNT AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Residential pass-through securities	$3,449.7	$3,426.5	$2,971.6	$2,968.8
Commercial MBS	1,586.7	1,403.4	969.4	677.4
Asset-backed securities	1,617.7	1,586.4	1,501.8	1,432.6
Total MBSs and asset-backed securities	$6,654.1	$6,416.3	$5,442.8	$5,078.8

We believe that it is desirable to hold residential mortgage-backed securities due to their credit quality and liquidity as well as portfolio diversification characteristics. Our portfolio is comprised of GNMA, FNMA and FHLMC pass-through securities and is actively managed to ensure that the securities held are trading close to or below par, in order to reduce risk of prepayments. As of March 31, 2001, we held no collateralized mortgage obligations in our U.S. invested asset portfolio.

Commercial mortgage-backed securities provide high levels of credit protection, diversification, reduced event risk and enhanced liquidity. Commercial mortgage-backed securities are predominantly comprised of rated large pool securitizations that are individually and collectively diverse by property type, borrower and geographic dispersion.

We purchase asset-backed securities, or ABS, to diversify the overall credit risks of the fixed maturity securities portfolio and to provide attractive returns. The principal risks in holding asset-backed securities are structural and credit risks. Structural risks include the security's priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks involve issuer/servicer risk where collateral values can become impaired in the event of servicer credit deterioration.

Our ABS portfolio is diversified both by type of asset and by issuer. We actively monitor holdings of asset-backed securities to ensure that the risk profile of each security improves or remains consistent. If we are not receiving an adequate yield for the risk, relative to other investment opportunities, we will attempt to sell the security. Prepayments in the ABS portfolio are, in general, insensitive to changes in interest rates or are insulated to such changes by call protection features. In the event that we are subject to prepayment risk, we monitor the factors that impact the level of prepayment and prepayment speed for those asset-backed securities. To the extent we believe that prepayment risk increases, we may attempt to sell the security and reinvest in another security that offers better yield relative to the risk. In addition, we diversify the risks of asset-backed securities by holding a diverse class of securities, which limits our exposure to any one security.

U.S. INVESTED ASSETS
ASSET-BACKED SECURITIES BY TYPE

	CARRYING AMOUNT AS OF MARCH 31,	CARRYING AMOUNT AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Credit cards	$ 209.4	$ 220.0	$ 260.9	$ 115.1
Automobile receivables	71.2	72.2	81.0	46.1
Collateralized debt obligations	634.4	579.1	654.2	545.8
Lease receivables	182.4	198.9	289.1	402.4
Consumer loans	141.1	145.0	168.5	42.9
Other	379.2	371.2	48.1	280.3
Total ABS	$1,617.7	$1,586.4	$1,501.8	$1,432.6

In accordance with our asset liability risk management techniques, we manage the expected lives of U.S. invested assets to be similar to the lives of our liabilities. Significant amounts of our liabilities have an expected life of six years or less. Therefore, comparable amounts of assets have a similar expected life. The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity dates, excluding scheduled sinking funds, as of March 31, 2001, and as of December 31, 2000 and 1999, respectively is as follows:

U.S. INVESTED ASSETS
FIXED MATURITY SECURITIES BY CONTRACTUAL MATURITY DATES

	AS OF MARCH 31, 2001		AS OF DECEMBER 31, 2000		AS OF DECEMBER 31, 1999	
	AMORTIZED COST	CARRYING AMOUNT	AMORTIZED COST	CARRYING AMOUNT	AMORTIZED COST	CARRYING AMOUNT
	($ IN MILLIONS)					
Due in one year or less	$ 1,142.7	$ 1,147.2	$ 1,093.6	$ 1,083.8	$ 1,263.5	$ 1,261.6
Due after one year through five years	10,362.9	10,512.0	9,691.0	9,687.7	8,263.0	8,130.0
Due after five years through ten years	5,556.9	5,738.5	5,058.0	5,135.6	4,908.4	4,820.6
Due after ten years	4,118.5	4,250.7	3,505.4	3,551.6	3,056.4	2,929.3
Subtotal	21,181.0	21,648.4	19,348.0	19,458.7	17,491.3	17,141.5
Mortgage-backed and other securities without a single maturity date	6,419.9	6,654.1	6,242.6	6,416.3	5,560.2	5,442.8
Total	$27,600.9	$28,302.5	$25,590.6	$25,875.0	$23,051.5	$22,584.3

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

The table below presents the total carrying amount of our fixed maturity portfolio, as well as its problem, potential problem and restructured fixed maturities:

U.S. INVESTED ASSETS
PROBLEM, POTENTIAL PROBLEM AND RESTRUCTURED FIXED MATURITIES AT CARRYING AMOUNT

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
		($ IN MILLIONS)		
Total fixed maturity securities (public and private)	$28,302.5	$25,875.0	$22,584.3	$21,832.5
Problem fixed maturity securities	$ 69.2	$ 79.0	$ 85.1	$ 92.5
Potential problem fixed maturity securities	139.9	132.5	150.1	76.5
Restructured fixed maturity securities	44.4	48.6	27.6	73.5
Total problem, potential problem and restructured fixed maturity securities	$ 253.5	$ 260.1	$ 262.8	$ 242.5
Total problem, potential problem and restructured fixed maturity securities as a percent of total fixed maturity securities	1%	1%	1%	1%

EQUITY SECURITIES

Our equity securities consist primarily of investments in common stocks. We classify our investment in common stocks as available for sale and report them at estimated fair value. We report unrealized gains and losses on common

stocks as a separate component of other comprehensive income, net of deferred income taxes and an adjustment for the effect on deferred acquisition costs that would have occurred if such gains and losses had been realized.

Investments in equity securities totaled $580.9 million, which represented 1% of U.S. invested assets as of March 31, 2001 and $666.0 million, $768.1 million and $995.7 million, which represented 2% of U.S. invested assets as of December 31, 2000, 1999 and 1998, respectively. Investments in company-sponsored funds totaled $465.1 million, or 80%, of our U.S. equity securities as of March 31, 2001. These sponsored funds are intended to be marketed to our asset management clients. Of company-sponsored funds, $329.1 million represented underlying investments in publicly-traded equities, $130.9 million represented investments in publicly-traded fixed income securities and $5.1 million in balanced funds which represented investments in both publicly-traded equities and fixed income securities as of March 31, 2001. The remaining balance of equity securities is a mixture of public and private securities acquired for investment purposes or which were acquired through equity participation features of below investment grade bonds or through recoveries of defaulted securities. In the period from 1996 to 1999, we repositioned our investment portfolio by selling invested assets with lower yields, primarily equities and real estate, and reinvesting the proceeds in assets with higher yields, primarily debt securities.

MORTGAGE LOANS

Mortgage loans comprised 26% of total U.S. invested assets as of March 31, 2001, 27% as of December 31, 2000 and 33% at each of December 31, 1999 and 1998. Mortgage loans consist of commercial and residential loans. As of March 31, 2001 and December 31, 2000, 1999 and 1998, commercial mortgage loans comprised $10,491.7 million, $10,775.3 million, $12,588.9 million and $12,157.2 million, or 94%, 95%, 95% and 92%, of total mortgage loan investments, respectively. Residential mortgages comprised $716.8 million, $550.5 million, $651.0 million and $997.4 million, or 6%, 5%, 5% and 8%, of total mortgage loan investments as of March 31, 2001 and December 31, 2000, 1999 and 1998, respectively. Principal Residential Mortgage, Inc. as part of its securitization inventory, holds the majority of residential loans.

On September 30, 2000, we completed a securitization of $598.0 million of general account commercial loans comprised of 102 loans. We sold $578.4 million of investment grade bonds into the market and we retained $28.7 million of interest only bonds.

COMMERCIAL MORTGAGE LOANS. Commercial mortgages play an important role in our investment strategy by:

- providing strong risk adjusted relative value in comparison to other investment alternatives;

- enhancing total returns; and

- providing strategic portfolio diversification.

As a result, we have focused on constructing a solid, high quality portfolio of mortgages. Our portfolio is generally comprised of mortgages with conservative loan-to-value ratios, high debt service coverages and general purpose property types with a strong credit tenancy.

Our commercial loan portfolio consists of primarily non-recourse, fixed rate mortgages on fully or near fully leased properties. The mortgage portfolio is comprised of general-purpose industrial properties, manufacturing office properties and credit oriented retail properties.

California accounted for 21% of our commercial mortgage loan portfolio as of March 31, 2001. We are, therefore, exposed to potential losses resulting from the risk of catastrophes, such as earthquakes, that may affect the region. Like other lenders, we generally do not require earthquake insurance for properties on which we make commercial mortgage loans. With respect to California properties, however, we obtain an engineering report specific to each property. The report assesses the building's design specifications, whether it has been upgraded to meet seismic building codes and the maximum loss that is likely to result from a variety of different seismic events. We also obtain a report that assesses by building and geographic fault lines the amount of loss our commercial mortgage loan portfolio might suffer under a variety of seismic events.

The following is a summary of our commercial mortgage loans by property type and geographic area as of March 31, 2001, and December 31, 2000, 1999 and 1998, respectively.

U.S. INVESTED ASSETS
COMMERCIAL MORTGAGE LOAN DISTRIBUTION BY TYPE

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Office	$ 3,378.3	32%	$ 3,273.5	30%	$ 3,841.0	31%	$ 3,500.8	29%
Retail	3,376.0	32	3,612.7	34	4,194.7	33	4,082.8	33
Industrial	3,225.5	31	3,381.6	31	4,048.3	32	4,050.5	33
Apartments	400.3	4	419.7	4	423.9	3	348.2	3
Mixed Use/other	138.0	1	130.2	1	127.8	1	199.4	2
Hotel	65.6	1	65.6	1	71.0	1	88.5	1
Valuation allowance	(92.0)	(1)	(108.0)	(1)	(117.8)	(1)	(113.0)	(1)
Total	$10,491.7	100%	$10,775.3	100%	$12,588.9	100%	$12,157.2	100%

U.S. INVESTED ASSETS
COMMERCIAL MORTGAGE LOAN DISTRIBUTION BY REGION

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Region:								
Pacific	$ 2,598.8	25%	$ 2,774.8	26%	$ 3,410.2	27%	$ 3,371.8	28%
South Atlantic	2,559.3	24	2,630.5	24	3,175.2	25	3,024.9	25
Middle Atlantic	1,691.5	16	1,664.9	15	1,775.2	14	1,687.6	14
East North Central	1,061.6	10	1,006.2	9	1,235.4	10	1,222.1	10
West South Central	846.0	8	886.4	8	904.9	7	810.9	7
Mountain	583.9	6	600.2	6	643.5	5	553.9	4
New England	469.9	5	495.9	5	598.7	5	616.0	5
West North Central	418.1	4	439.9	4	535.1	5	579.3	5
East South Central	354.6	3	384.5	4	428.5	3	403.7	3
Valuation allowance	(92.0)	(1)	(108.0)	(1)	(117.8)	(1)	(113.0)	(1)
Total	$10,491.7	100%	$10,775.3	100%	$12,588.9	100%	$12,157.2	100%

Our commercial loan portfolio is highly diversified by borrower. As of March 31, 2001, 43% of the U.S. commercial mortgage loan portfolio was comprised of mortgage loans with principal balances of less than $10 million. The table below shows our U.S. commercial mortgage loan portfolio by loan size, as of the periods indicated.

U.S. INVESTED ASSETS
COMMERCIAL MORTGAGE LOAN PORTFOLIO -- BY LOAN SIZE

	AS OF MARCH 31,			AS OF DECEMBER 31,					
	2001			2000			1999		
	NUMBER OF LOANS	PRINCIPAL BALANCE	% OF TOTAL	NUMBER OF LOANS	PRINCIPAL BALANCE	% OF TOTAL	NUMBER OF LOANS	PRINCIPAL BALANCE	% OF TOTAL
		($ IN MILLIONS)							
Under $5 million	1,214	$ 2,506.6	24%	1,236	$ 2,553.5	24%	1,451	$ 3,110.8	24%
$5 million but less than $10 million	296	2,068.9	19	304	2,116.5	19	380	2,622.6	21
$10 million but less than $20 million	175	2,334.8	22	187	2,515.2	23	204	2,733.2	21
$20 million but less than $30 million	63	1,487.9	14	63	1,495.3	14	67	1,617.6	13
$30 million and over	48	2,199.3	21	48	2,204.5	20	56	2,640.2	21
Total	1,796	$10,597.5	100%	1,838	$10,885.0	100%	2,158	$12,724.4	100%

	AS OF DECEMBER 31,
	1998

	NUMBER OF LOANS	PRINCIPAL BALANCE	% OF TOTAL
		($ IN MILLIONS)	
Under $5 million	1,515	$ 3,179.2	26%
$5 million but less than $10 million	384	2,649.9	22
$10 million but less than $20 million	204	2,776.2	23
$20 million but less than $30 million	58	1,408.4	11
$30 million and over	47	2,257.2	18
Total	2,208	$12,270.9	100%

The total number of commercial mortgage loans outstanding as of March 31, 2001 and December 31, 2000, 1999 and 1998, was 1,796, 1,838, 2,158 and 2,208, respectively. The average loan size of our commercial mortgage portfolio

was $5.9 million as of March 31, 2001, $5.9 million as of December 31, 2000 and 1999, and $5.6 million as of December 31, 1998. The largest loan on any single property at such dates aggregated $100.0 million for March 31, 2001 and December 31, 2000, 1999 and 1998, respectively, and represented 0.2% of U.S. invested assets on these dates. Total mortgage loans to the 10 largest borrowers accounted in the aggregate for approximately 7% of the total carrying amount of the commercial mortgage loan portfolio as of March 31, 2001 and December 31, 2000 and 6% as of December 31, 1999 and 1998, respectively, and 2% of total U.S. invested assets as of March 31, 2001, and December 31, 2000, 1999 and 1998, respectively. As of such dates, all such loans were performing.

The table below presents the disposition of maturities for the three months ended March 31, 2001, and for the years ended December 31, 2000, 1999 and 1998:

U.S. INVESTED ASSETS
DISPOSITIONS OF SCHEDULED MATURITIES OF COMMERCIAL MORTGAGE LOANS

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	AMORTIZED COST	AMORTIZED COST	AMORTIZED COST	AMORTIZED COST
	($ IN MILLIONS)			
Paid as scheduled	$ 62.4	$395.0	$401.9	$300.0
Extended	136.4	174.8	164.9	361.0
Refinanced	3.8	82.7	204.4	203.9
Foreclosed	--	--	--	8.0
Expired maturities	6.8	59.1	--	35.1
Total	$209.4	$711.6	$771.2	$908.0

The amortized cost of commercial mortgage loans by contractual maturity dates, excluding scheduled sinking funds as of March 31, 2001, and December 31, 2000, 1999 and 1998, respectively, are as follows:

U.S. INVESTED ASSETS
COMMERCIAL MORTGAGE LOAN PORTFOLIO MATURITY PROFILE

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	AMORTIZED COST	% OF TOTAL	AMORTIZED COST	% OF TOTAL	AMORTIZED COST	% OF TOTAL	AMORTIZED COST	% OF TOTAL
	($ IN MILLIONS)							
Due in one year or less	$ 686.8	6%	$ 675.8	6%	$ 735.4	6%	$ 806.3	7%
Due after one year through five years	3,270.0	31	3,033.4	28	3,045.0	24	2,629.2	21
Due after five years through ten years	3,441.5	33	3,900.7	36	4,862.1	38	4,711.1	38
Due after ten years	3,185.4	30	3,273.4	30	4,064.1	32	4,123.6	34
Total	$10,583.7	100%	$10,883.3	100%	$12,706.6	100%	$12,270.2	100%

We actively monitor and manage our commercial mortgage loan portfolio. Substantially all loans within the portfolio are analyzed regularly, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets and are internally rated. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal "watch list". Among criteria which would indicate a potential problem are: imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

We state commercial mortgage loans at their unpaid principal balances, net of discount accrual and premium amortization, valuation allowances and writedowns for impairment. We provide a valuation allowance for commercial mortgage loans based on past loan loss experience and for specific loans considered to be impaired. Mortgage loans are considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement may not be collected. When we determine that a loan is impaired, we establish a valuation allowance for loss for the excess of the carrying value of the mortgage loan over its estimated fair value. Estimated fair value is based on either the present value of expected future cash flows discounted at the loan's original effective interest rate, the loan's observable market price or the fair value of the collateral. We record increases in such valuation allowances as realized investment losses and, accordingly, we reflect such losses in our consolidated

results of operations. Such increases (decreases) in valuation allowances aggregated $(16.0) million as of March 31, 2001, and $(9.8) million, $4.8 million and $(8.4) million for the years ended December 31, 2000, 1999 and 1998, respectively.

We review our mortgage loan portfolio and analyze the need for a valuation allowance for any loan which is delinquent for 60 days or more, in process of foreclosure, restructured, on the "watch list", or which currently has a valuation allowance. We categorize loans which are delinquent, loans in process of foreclosure and loans to borrowers in bankruptcy as "problem" loans. Potential problem loans are loans placed on an internal "watch list" for which management has concerns as to the ability of the borrower to comply with the present loan payment terms and which may result in the loan becoming a problem or being restructured. The decision whether to classify a performing loan as a potential problem involves significant subjective judgments by management as to the likely future economic conditions and developments with respect to the borrower. We categorize loans for which the original terms of the mortgages have been modified or for which interest or principal payments have been deferred as "restructured" loans. We also consider matured loans that are refinanced at below market rates as restructured.

We charge mortgage loans deemed to be uncollectible against the allowance for losses and credit subsequent recoveries to the allowance for losses. We maintain the allowance for losses at a level management believes to be adequate to absorb estimated probable credit losses. Management bases its periodic evaluation of the adequacy of the allowance for losses on our past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. The evaluation is inherently subjective as it requires estimating the amounts and timing of future cash flows expected to be received on impaired loans that may change.

The table below represents our commercial mortgage valuation allowance for the periods indicated:

U.S. INVESTED ASSETS
COMMERCIAL MORTGAGE VALUATION ALLOWANCE

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Beginning Balance	$108.0	$117.8	$113.0	$121.4
Provision	0.8	3.0	9.2	7.3
Release due to writedowns, sales and foreclosures	(16.8)	(12.8)	(4.4)	(15.7)
Ending Balance	$ 92.0	$108.0	$117.8	$113.0
Valuation allowance as a percentage of carrying value before reserves	1%	1%	1%	1%

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages relative to the carrying amount of all commercial mortgages as of the dates indicated:

U.S. INVESTED ASSETS
PROBLEM, POTENTIAL PROBLEM AND RESTRUCTURED COMMERCIAL MORTGAGES AT CARRYING AMOUNT

	AS OF MARCH 31,	AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Total commercial mortgages	$10,491.7	$10,775.3	$12,588.9	$12,157.2
Problem commercial mortgages(1)	$ 26.3	$ 8.9	$ 38.7	$ 73.4
Potential problem commercial mortgages	38.9	58.9	39.9	24.9
Restructured commercial mortgages	83.2	92.6	101.5	126.2
Total problem, potential problem and restructured commercial mortgages	$ 148.4	$ 160.4	$ 180.1	$ 224.5
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	1%	1%	1%	2%

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(1) Problem commercial mortgages included mortgage loans in foreclosure of $6.0 million, $23.8 million and $27.4 million as of December 31, 2000, 1999 and 1998, respectively. There were no mortgage loans in foreclosure as of March 31, 2001.

The delinquency and loss performance of our U.S. invested loan portfolio has generally outperformed the life insurance industry averages as reported by the American Council Life Insurers. The table below presents mortgage loan delinquency rates for the industry and Principal Life on a statutory basis, expressed as a percentage of the total commercial loan portfolio at year end:

U.S. INVESTED ASSETS
MORTGAGE LOAN DELINQUENCY(1)

	AS OF MARCH 31,	AS OF DECEMBER 31,									
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Industry(2)	0.3%	0.2%	0.3%	0.5%	0.9%	1.8%	2.4%	3.4%	4.5%	6.4%	5.9%
Principal Life	0.1	0.1	0.3	0.5	0.7	1.0	1.3	2.9	1.8	3.9	2.1

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(1) Includes loans that are delinquent and in process of foreclosure. As defined by the American Council of Life Insurers, mortgage loans are classified as delinquent when they are 60 days or more past due as to the payment of interest or principal.

(2) As reported by the American Council of Life Insurers.

EQUITY REAL ESTATE

We hold commercial equity real estate as part of our investment portfolio. As of March 31, 2001 and December 31, 2000, 1999 and 1998, the carrying amount of equity real estate investment was $1,177.8 million, $1,391.8 million, $2,201.2 million and $2,585.2 million, respectively, or 3%, 4%, 6% and 7%, of U.S. invested assets. We own real estate, real estate acquired upon foreclosure of commercial mortgage loans and interests, both majority owned and non-majority owned, in real estate joint ventures. We continue to focus on a long-term strategy of reducing our real estate equity portfolio.

Equity real estate is categorized as either "real estate held for investment" or "real estate held for sale". Real estate held for investment totaled $689.0 million as of March 31, 2001 and $696.4 million, $1,167.8 million and $1,535.4 million as of December 31, 2000, 1999 and 1998, respectively. The carrying value of real estate held for investment is generally adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as realized investment losses and accordingly, are reflected in our consolidated results of operations. For the three months ended March 31, 2001 and years ended December 31, 2000, 1999 and 1998, there were no such impairment adjustments.

The carrying amount of real estate held for sale as of March 31, 2001 and December 31, 2000, 1999 and 1998 was $488.8 million, $695.4 million, $1,033.4 million and $1,049.8 million, net of valuation allowances of $35.0 million, $40.8 million, $70.4 million and $33.1 million, respectively. Once we identify a real estate property to be sold and commence a plan for marketing the property, we classify the property as held for sale. We establish a valuation allowance subject to periodical revisions, if necessary, to adjust the carrying value of the property to reflect the lower of its current carrying value or the fair value, less associated selling costs.

We use research, both internal and external, to recommend appropriate product and geographic allocations and changes to the equity real estate portfolio. We monitor product, geographic and industry diversification separately and together to determine the most appropriate mix.

Equity real estate is distributed across geographic regions of the country with larger concentrations in the South Atlantic, Pacific, and West South Central regions of the United States as of March 31, 2001. By property type, there is a concentration in office buildings that represented approximately 44% of the equity real estate portfolio as of March 31, 2001. Our largest equity real estate holding as of March 31, 2001 consisted of an office/industrial park located in Durham, North Carolina with an aggregate carrying value of approximately $138.7 million and represented approximately 12% of total U.S. equity real estate assets and 0.3% of U.S. invested assets. The ten largest real estate properties as of March 31, 2001 comprised 51% of total U.S. equity real estate assets and 1% of total U.S. invested assets.

The tables below present information concerning the geographic and property type breakdown of the equity real estate portfolio as of March 31, 2001, and December 31, 2000, 1999 and 1998:

U.S. INVESTED ASSETS
EQUITY REAL ESTATE BY REGION

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE
	($ IN MILLIONS)							
Region(1):								
South Atlantic	$ 405.7	34%	$ 431.7	31%	$ 676.1	31%	$ 714.8	28%
West South Central	299.2	25	362.2	26	449.2	20	486.7	19
Pacific	252.7	21	384.6	28	534.3	24	634.8	25
East North Central	117.6	10	120.7	9	152.0	7	150.2	6
East South Central	42.8	4	21.5	1	28.0	1	34.6	1
West North Central	18.8	2	19.0	1	119.2	6	115.3	4
Middle Atlantic	18.2	2	28.7	2	48.0	2	208.4	8
New England	14.3	1	14.5	1	112.5	5	142.4	5
Mountain	8.5	1	8.9	1	81.9	4	98.0	4
Total	$1,177.8	100%	$1,391.8	100%	$2,201.2	100%	$2,585.2	100%

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(1) Regions are as defined by the American Council of Life Insurers.

U.S. INVESTED ASSETS
EQUITY REAL ESTATE BY PROPERTY TYPE

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE	CARRYING AMOUNT	PERCENTAGE
	($ IN MILLIONS)							
Office	$ 518.8	44%	$ 615.5	44%	$ 721.7	33%	$ 979.8	38%
Retail	180.9	15	152.7	11	691.4	31	689.9	27
Industrial	282.4	24	413.6	30	462.2	21	557.6	21
Service center	118.2	7	120.1	9	205.6	9	308.1	12
Land	77.5	10	89.9	6	120.3	6	49.8	2
Total	$1,177.8	100%	$1,391.8	100%	$2,201.2	100%	$2,585.2	100%

DERIVATIVES

We use various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate futures and interest rate swaps and swaptions. We use interest rate futures contracts to hedge changes in interest rates subsequent to the issuance of an insurance liability, such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the interest rate characteristics of specific assets and liabilities as well as an entire portfolio. Occasionally, we will sell a callable liability or a liability with attributes similar to a call option. In these cases, we will use interest rate swaptions or similar products to hedge the risk of early liability payment, thereby transforming the callable liability into a fixed term liability.

We also seek to reduce call or prepayment risk arising from changes in interest rates in individual investments. We limit our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer, and we require additional yield on these investments to compensate for the risk that the issuer will exercise such option. An example of an investment we limit because of the option risk is residential mortgage-backed securities. We assess option risk in all investments we make and, when we take that risk, we price for it accordingly.

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from our international operations and foreign currency-denominated funding agreements issued to non-qualified institutional investors in the international market. The notional amount of our currency swap agreements associated with foreign-denominated liabilities as of March 31, 2001 was $3,061.2 million.

We also have fixed maturity securities that are denominated in foreign currencies. However, we use derivatives to hedge the foreign currency risk of these funding agreements and securities. As of March 31, 2001, the fair value of our foreign currency denominated fixed maturity securities was $406.5 million. We use currency swap agreements of the same currency to hedge the foreign currency exchange risk related to these investments. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturity securities as of March 31, 2001 was $428.7 million.

In conjunction with the interest rate swaps, interest rate swaptions and other derivatives, we are exposed to counterparty risk, or the risk that counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- establishing exposure limits which take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- limiting exposure to AA- credit or better;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction; and
- daily monitoring of counterparty credit ratings.

All new derivative counterparties are approved by the investment committee. We believe the risk of incurring losses due to nonperformance by our counterparties is remote and that such losses, if any, would not be material. Futures contracts trade on organized exchanges and, therefore, effectively have no credit risk.

The notional amounts used to express the extent of our involvement in swap transactions represent a standard measurement of the volume of our swap business. Notional amount is not a quantification of market risk or credit risk and it may not necessarily be recorded on the balance sheet. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Actual credit exposure represents the amount owed to us under derivative contracts as of the valuation date.

The following tables present our position in, and credit exposure to, derivative financial instruments as of March 31, 2001, and December 31, 2000, 1999 and 1998, respectively:

U.S. INVESTED ASSETS
DERIVATIVE FINANCIAL INSTRUMENTS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Foreign currency swaps	$ 3,489.9	18%	$ 2,745.0	26%	$ 1,571.5	15%	$ 485.9	4%
Interest rate floors	3,200.0	16	2,450.0	23	5,550.0	52	5,250.0	46
Interest rate swaps	4,108.2	21	2,391.5	23	1,298.5	12	1,533.0	13
Mortgage-backed forwards and options	5,951.7	30	1,898.3	18	1,546.7	14	81.5	1
Swaptions	2,512.0	13	697.7	7	469.7	4	259.0	2
Call options	30.0	--	30.0	--	30.0	--	30.0	--
Put options	--	--	--	--	--	--	18.0	--
Mandatory forwards, options, and futures	--	--	--	--	--	--	2,369.0	21
U.S. Treasury futures	255.3	1	183.2	2	287.6	3	840.7	7
Currency forwards	39.4	--	39.4	--	13.0	--	--	--
Options on futures contract	--	--	--	--	--	--	681.7	6
Principal Only swaps	150.0	1	--	--	--	--	--	--
Treasury rate guarantees	27.0	--	60.0	1	--	--	--	--
Total	$19,763.5	100%	$10,495.1	100%	$10,767.0	100%	$11,548.8	100%

U.S. INVESTED ASSETS
DERIVATIVE FINANCIAL INSTRUMENTS

	AS OF MARCH 31, 2001		AS OF DECEMBER 31, 2000		1999		1998	
	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL
	($ IN MILLIONS)							
Foreign currency swaps	$ 39.9	31%	$ 45.3	42%	$ 69.2	50%	$35.2	54%
Interest rate floors	10.0	8	20.0	18	15.1	11	5.9	9
Interest rate swaps	26.2	20	14.1	13	21.6	15	18.6	28
Call options	8.1	6	12.3	11	19.0	14	--	--
Swaptions	34.2	27	11.8	11	8.7	6	5.6	9
Put options	--	--	--	--	--	--	0.3	--
U.S. Treasury futures	--	--	--	--	--	--	--	--
Currency forwards	10.3	8	5.5	5	--	--	--	--
Mortgage-backed forwards and options	--	--	--	--	6.0	4	--	--
Total	$128.7	100%	$109.0	100%	$139.6	100%	$65.6	100%

OTHER INVESTMENTS

Our other investments totaled $767.8 million as of March 31, 2001, compared to $681.2 million as of December 31, 2000 and $514.0 million as of December 31, 1999. Our investment in Coventry is included in other investments as we accounted for it using the equity method. As of March 31, 2001, our carrying value in Coventry was $128.9 million. Also included in other investments is a $129.9 million investment in an Australian hotel trust, which we acquired in connection with our acquisition of BT Financial Group. With the adoption of SFAS 133 on January 1, 2001, derivatives were reflected on our balance sheet and accounted for $86.0 million in other investments as of March 31, 2001. The remaining investment assets include leases and other private equity investments.

SECURITIES LENDING

The terms of our securities lending program, approved in 1999, allow us to lend our securities to major brokerage firms. Our policy requires an initial minimum of 102% of the fair value of the loaned securities as collateral. Although we lend from time to time during the financial reporting quarters, we had no securities on loan as of December 31, 2000 and December 31, 1999. Our securities on loan as of March 31, 2001 had an estimated fair value of $434.3 million.

INTERNATIONAL INVESTMENT OPERATIONS

As of March 31, 2001, our international investment operations consist of the investments of Principal International and BT Financial Group and comprise $1.1 billion in invested assets, which primarily represent the assets of Principal International. Principal Capital Management works with each Principal International affiliate to develop investment policies and strategies that are consistent with the products they offer. Due to the regulatory constraints in each country, each company maintains its own investment policies which are approved by Principal Capital Management. Each international affiliate is required to submit a compliance report relative to its strategy to Principal Capital Management. A credit committee comprised of Principal Capital Management employees and international affiliate company chief investment officer's review each corporate credit annually. In addition, employees from our U.S. operations who serve on the credit committee hold investment positions in at least two of our international affiliates. Principal Capital Management provides annual credit approval training to Principal International personnel.

OVERALL COMPOSITION OF INTERNATIONAL INVESTED ASSETS

As shown in the table below, the major categories of international invested assets as of March 31, 2001, were fixed maturity securities and residential mortgage loans:

INTERNATIONAL INVESTED ASSETS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Fixed maturity securities, available for sale								
Public	$ 796.4	70%	$ 948.6	70%	$ 857.0	68%	$ 653.1	64%
Private	11.9	1	16.3	1	2.6	--	242.4	24
Equity securities, available for sale	37.7	3	76.9	6	96.1	8	106.6	11
Mortgage loans								
Residential	170.1	15	166.9	12	92.3	7	--	--
Real estate held for investment	8.3	1	8.7	1	10.8	1	--	--
Other investments	121.4	10	129.8	10	196.4	16	10.6	1
Total invested assets	$1,145.8	100%	$1,347.2	100%	$1,255.2	100%	$1,012.7	100%
Cash and cash equivalents	117.1		176.5		201.1		44.6	
Total invested assets and cash	$1,262.9		$1,523.7		$1,456.3		$1,057.3	

INTERNATIONAL INVESTMENT RESULTS

The yield on international invested assets, excluding net realized gains and losses, was 7.5% as of March 31, 2001 and 7.1%, 7.5% and 6.2% for the years ended December 31, 2000, 1999 and 1998, respectively.

The table below illustrates the yields on average assets for each of the components of our investment portfolio for the three months ended March 31, 2001, and for the years ended December 31, 2000, 1999 and 1998:

INTERNATIONAL INVESTED ASSETS
YIELDS BY ASSET TYPE

	AS OF MARCH 31,		AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	2001		2000		1999		1998	
	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT
				($ IN MILLIONS)				
Fixed maturity securities, available-for-sale								
Gross investment income(1)	7.9%	$ 17.5	7.4%	$ 67.4	6.9%	$ 61.0	6.6%	$ 41.5
Net realized capital gains (losses)	0.4	0.9	0.4	3.7	0.8	7.4	(0.1)	(0.9)
Total		$ 18.4		$ 71.1		$ 68.4		$ 40.6
Ending assets (at carrying value)		$808.3		$964.9		$859.6		$895.5
Equity securities, available-for-sale								
Gross investment income(1)	--%	$ --	0.6%	$ 0.5	6.9%	$ 7.0	1.4%	$ 1.1
Net realized capital gains (losses)	1.4	0.2	(1.3)	(1.1)	1.6	1.6	0.3	0.2
Total		$ 0.2		$ (0.6)		$ 8.6		$ 1.3
Ending assets (at carrying value)		$ 37.7		$ 76.9		$ 96.1		$106.6
Mortgage loans -- Residential								
Gross investment income(1)	7.6%	$ 3.2	8.6%	$ 11.2	15.2%	$ 7.0	--%	$ --
Net realized capital gains (losses)	--	--	--	--	--	--	--	--
Total		$ 3.2		$ 11.2		$ 7.0		$ --
Ending assets (at carrying value)		$170.1		$166.9		$ 92.3		$ --
Real estate								
Gross investment income(1)	37.1%	$ 0.8	5.1%	$ 0.5	8.6%	$ 0.4	--%	$ --
Net realized capital gains (losses)	--	--	--	--	--	--	--	--
Total		$ 0.8		$ 0.5		$ 0.4		$ --
Ending assets (at carrying value)		$ 8.3		$ 8.7		$ 10.8		$ --
Cash and cash equivalents								
Gross investment income(1)	5.2%	$ 1.9	4.4%	$ 8.3	4.8%	$ 5.9	8.7%	$ 3.7
Net realized capital gains (losses)	--	--	--	--	--	--	(0.2)	(0.1)
Total		$ 1.9		$ 8.3		$ 5.9		$ 3.6
Ending assets (at carrying value)		$117.1		$176.5		$201.1		$ 44.6
Other investments								
Gross investment income(1)	9.5%	$ 3.0	11.7%	$ 19.1	15.4%	$ 15.9	10.7%	$ 1.6
Net realized capital gains (losses)	(123.6)	(38.8)	0.1	0.2	(0.3)	(0.3)	94.9	14.3
Total		$(35.8)		$ 19.3		$ 15.6		$ 15.9
Ending assets (at carrying value)		$121.4		$129.8		$196.4		$ 10.6
Total before investment expenses								
Gross investment income	7.6%	$ 26.4	7.2%	$107.0	7.7%	$ 97.2	6.2%	$ 47.9
Net realized capital gains (losses)	(10.8)	(37.7)	0.2	2.8	0.7	8.7	1.8	13.5
Total		$(11.3)		$109.8		$105.9		$ 61.4
Investment expenses	0.1%	$ 0.3	0.1%	$ 2.0	0.2%	$ 3.1	--%	$ --
Net investment income	7.5%	$ 26.1	7.1%	$105.0	7.5%	$ 94.1	6.2%	$ 47.9

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(1) Yields, which are annualized for interim periods, are based on quarterly average asset carrying values for the three months ended March 31, 2001, and annual average asset carrying values for the years ended December 31, 2000, 1999 and 1998.

FIXED MATURITY SECURITIES

Fixed maturity securities consist primarily of publicly traded debt securities and represented 71% of total international invested assets for both March 31, 2001, and December 31, 2000, 68% as of December 31, 1999, and 88% as of December 31, 1998. Fixed maturity securities were diversified by type of issuer as of March 31, 2001 and for the years ended December 31, 2000, 1999 and 1998 as shown in the following table:

INTERNATIONAL INVESTED ASSETS
FIXED MATURITY SECURITIES BY TYPE OF ISSUER

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 0.6	--%	$ 1.8	--%	$ 0.7	--%	$305.4	34%
States and political subdivisions	--	--	--	--	--	--	--	--
Non-U.S. governments	270.6	34	313.6	32	333.3	39	77.0	9
Corporate-public	279.6	35	376.5	39	254.9	30	253.2	28
Corporate-private	11.9	1	16.3	2	2.6	--	242.4	27
Mortgage-backed securities and other asset backed securities	245.6	30	256.7	27	268.1	31	17.5	2
Total fixed maturities	$808.3	100%	$964.9	100%	$859.6	100%	$895.5	100%

The fixed maturity securities held by the international operations have not been rated by external agencies and cannot be presented in a comparable rating agency equivalent.

The issuers of the majority of our fixed maturity corporate securities are mainly banks and are categorized in the finance, insurance and real estate category as shown in the tables below:

INTERNATIONAL INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF MARCH 31, 2001

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
	($ IN MILLIONS)					
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$151.0	54%	$11.9	100%	$162.9	56%
Manufacturing	0.3	--	--	--	0.3	--
Transportation and Public Utilities	26.6	10	--	--	26.6	9
Services	38.6	14	--	--	38.6	13
Mining	--	--	--	--	--	--
Retail	24.6	9	--	--	24.6	9
Agriculture, Forestry and Fishing	--	--	--	--	--	--
Public Administration	1.0	--	--	--	1.0	--
Construction	37.5	13	--	--	37.5	13
Total	$279.6	100%	$11.9	100%	$291.5	100%

INTERNATIONAL INVESTED ASSETS
CORPORATE FIXED MATURITY SECURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 2000

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
			($ IN MILLIONS)			
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$240.3	64%	$ --	--%	$240.3	61%
Manufacturing	0.3	--	13.3	82	13.6	3
Transportation and Public Utilities	100.6	27	--	--	100.6	26
Services	9.1	2	2.7	17	11.8	3
Mining	--	--	--	--	--	--
Retail	26.2	7	--	--	26.2	7
Agriculture, Forestry and Fishing	--	--	--	--	--	--
Public Administration	--	--	--	--	--	--
Construction	--	--	0.3	1	0.3	--
Total	$376.5	100%	$16.3	100%	$392.8	100%

INTERNATIONAL INVESTED ASSETS
CORPORATE FIXED MATURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 1999

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
			($ IN MILLIONS)			
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$174.5	69%	$2.6	100%	$177.1	69%
Manufacturing	0.4	--	--	--	0.4	--
Transportation and Public Utilities	28.6	11	--	--	28.6	11
Services	26.7	10	--	--	26.7	10
Mining	--	--	--	--	--	--
Retail	15.0	6	--	--	15.0	6
Agriculture, Forestry and Fishing	--	--	--	--	--	--
Public Administration	9.7	4	--	--	9.7	4
Construction	--	--	--	--	--	--
Total	$254.9	100%	$2.6	100%	$257.5	100%

INTERNATIONAL INVESTED ASSETS
CORPORATE FIXED MATURITIES PORTFOLIO BY INDUSTRY AS OF DECEMBER 31, 1998

	PUBLICLY TRADED		PRIVATELY PLACED		TOTAL	
	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL	CARRYING AMOUNT	% OF TOTAL
			($ IN MILLIONS)			
INDUSTRY CLASS						
Finance, Insurance and Real Estate	$253.2	100%	$ --	--%	$253.2	51%
Manufacturing	--	--	242.4	100	242.4	49
Transportation and Public Utilities	--	--	--	--	--	--
Services	--	--	--	--	--	--
Mining	--	--	--	--	--	--
Retail	--	--	--	--	--	--
Agriculture, Forestry and Fishing	--	--	--	--	--	--
Public Administration	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Total	$253.2	100%	$242.4	100%	$495.6	100%

The international operations held $245.6 million of residential pass-through securities as of March 31, 2001, and $256.7 million, $268.1 million and $17.5 million as of December 31, 2000, 1999 and 1998, respectively.

INTERNATIONAL INVESTED ASSETS
MORTGAGE AND ASSET-BACKED SECURITIES

	CARRYING AMOUNT AS OF MARCH 31,	CARRYING AMOUNT AS OF DECEMBER 31,		
	2001	2000	1999	1998
	($ IN MILLIONS)			
Residential pass-through securities	$245.6	$256.7	$268.1	$17.5
Commercial MBS	--	--	--	--
Asset-backed securities	--	--	--	--
Total MBSs and asset-backed securities	$245.6	$256.7	$268.1	$17.5

The amortized cost and estimated fair value of fixed maturity securities, by contractual maturity dates excluding scheduled sinking funds, as of March 31, 2001, and December 31, 2000 and 1999 were as follows:

INTERNATIONAL INVESTED ASSETS
FIXED MATURITY SECURITIES BY CONTRACTUAL MATURITY DATES

	AS OF MARCH 31,		AS OF DECEMBER 31,		AS OF DECEMBER 31,	
	2001		2000		1999	
	AMORTIZED COST	CARRYING AMOUNT	AMORTIZED COST	CARRYING AMOUNT	AMORTIZED COST	CARRYING AMOUNT
	($ IN MILLIONS)					
Due in one year or less	$ 31.7	$ 31.4	$ 31.6	$ 29.2	$ 49.7	$ 50.5
Due after one year through five years	77.0	79.0	91.8	95.3	63.8	65.8
Due after five years through ten years	160.0	184.1	215.6	217.2	122.7	132.1
Due after ten years	291.6	268.2	356.4	366.5	334.7	343.1
Subtotal	560.3	562.7	695.4	708.2	570.9	591.5
Mortgage-backed and other securities without a single maturity date	242.2	245.6	253.5	256.7	272.0	268.1
Total	$802.5	$808.3	$948.9	$964.9	$842.9	$859.6

EQUITY SECURITIES

Our equity securities represented 3% of international invested assets as of March 31, 2001, and 6%, 8% and 11% as of December 31, 2000, 1999 and 1998, respectively. Our equity securities consisted of $14.2 million in mutual funds and $23.5 million in common stock as of March 31, 2001.

RESIDENTIAL MORTGAGE LOANS

Our Chilean operations originate residential mortgage loans. Residential mortgage loans comprised $170.1 million, or 15%, of international invested assets as of March 31, 2001 and $166.9 million, or 12%, as of December 31, 2000.

DERIVATIVES

Our use of derivative instruments includes foreign currency swaps, interest rate swaps and currency forwards. The following tables present our position in, and credit exposure to, derivative financial instruments as of March 31, 2001, and December 31, 2000 and 1999, respectively. We did not use derivatives prior to 1999.

INTERNATIONAL INVESTED ASSETS
DERIVATIVE FINANCIAL INSTRUMENTS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL	NOTIONAL AMOUNT	% OF TOTAL
	($ IN MILLIONS)							
Foreign currency swaps	$ 665.1	39%	$ 665.0	39%	$ 670.0	39%	$--	--%
Interest rate swaps	665.0	39	665.0	39	665.0	39	--	--
Currency forwards	380.0	22	380.0	22	380.0	22	--	--
Total	$1,710.1	100%	$1,710.0	100%	$1,715.0	100%	$--	--%

INTERNATIONAL INVESTED ASSETS
DERIVATIVE FINANCIAL INSTRUMENTS

	AS OF MARCH 31,		AS OF DECEMBER 31,					
	2001		2000		1999		1998	
	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL	CREDIT EXPOSURE	% OF TOTAL
	($ IN MILLIONS)							
Interest rate swaps	$ 44.9	25%	$39.1	42%	$ --	--%	$--	--%
Foreign currency swaps	76.8	44	28.4	30	14.8	100	--	--
Currency forwards	54.6	31	26.2	28	--	--	--	--
Total	$176.3	100%	$93.7	100%	$14.8	100%	$--	--%

OTHER INVESTMENTS

Our other investments totaled $121.4 million as of March 31, 2001, compared to $129.8 million as of December 31, 2000 and $196.4 million as of December 31, 1999. Of the $121.4 million, $38.2 million is related to subordinated notes in BT Financial Group's margin lending program, $37.8 million represents our investment in subsidiaries including Brazil, Japan and India, $23.8 million represents BT Financial Group's investment in unit trusts, $12.9 million represents our investment in Chilean operations, $8.3 million represents our investment in Hong Kong, and $0.4 million represents our investment in Mexican operations.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table lists our directors and executive officers, their ages and their positions:

NAME OF OFFICER	AGE(1)	POSITION
David J. Drury	56	Chairman of the Board, Chairman and Director
J. Barry Griswell	51	President and Chief Executive Officer and Director
Betsy J. Bernard	45	Director
Jocelyn Carter-Miller	43	Director
Daniel Gelatt	53	Director
Sandra L. Helton	51	Director
Charles S. Johnson	62	Director
William T. Kerr	59	Director
Lee Liu	67	Director
Victor H. Loewenstein	62	Director
Ronald D. Pearson	60	Director
Federico F. Pena	53	Director
Donald M. Stewart	62	Director
Elizabeth E. Tallett	51	Director
John E. Aschenbrenner	51	Executive Vice President
Michael T. Daley	44	Executive Vice President
Dennis P. Francis	57	Senior Vice President
Michael H. Gersie	52	Executive Vice President and Chief Financial Officer
Ellen Z. Lamale	47	Senior Vice President and Chief Actuary
Mary A. O'Keefe	44	Senior Vice President
Richard L. Prey	59	Executive Vice President
Karen E. Shaff	46	Senior Vice President and General Counsel
Norman R. Sorensen	56	Senior Vice President
Carl C. Williams	63	Senior Vice President and Chief Information Officer

(1) At December 31, 2000.

The following is biographical information for our directors and executive officers:

DAVID J. DRURY has been Chairman of Principal Financial Group, Inc. since April 25, 2001, Chairman of Principal Life since January 2000, a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since 1993. Mr. Drury has announced his retirement as Chairman of Principal Financial Group, Inc. and Principal Life, which he expects to occur following completion of the demutualization. Prior to 2000, Mr. Drury was Chairman and Chief Executive Officer of Principal Life from 1995 to 1999. He is a director of Coventry Health Care, Inc., a managed health care company, and a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries. He chairs the Executive and Investment Committees of the board of directors of Principal Life and is a member of the Board-Management Committee and, effective August 21, 2001, will assume the same positions with Principal Financial Group, Inc.

J. BARRY GRISWELL has been President and Chief Executive Officer of Principal Financial Group, Inc. since April 25, 2001, President and Chief Executive Officer of Principal Life since January 2000, a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since March 1998. Effective upon Mr. Drury's retirement, Mr. Griswell will assume the additional title of Chairman of Principal Financial Group, Inc. and Principal Life. Prior to his current position, Mr. Griswell held the following positions with Principal Life: President 1998-2000, Executive Vice President 1996-1998, Senior Vice President 1991-1996. He is a Chartered Life Underwriter, a Chartered Financial Consultant and a LIMRA Leadership Institute Fellow. He is Chair of the Board-Management Committee and is a member of the Executive and Investment Committees of the board of directors of Principal Life and, effective August 21, 2001, will assume the same positions with Principal Financial Group, Inc. Mr. Griswell serves as a director of the 28 mutual funds that comprise the Principal Family of Mutual Funds.

BETSY J. BERNARD has been a director of Principal Financial Group, Inc. since April 24, 2001, and a Principal Life director since February 1999. Ms. Bernard has been President and Chief Executive Officer of AT&T Consumer since April 2001. Prior to April 2001, she was Executive Vice President -- National Mass Markets of Qwest Communications, formerly U S WEST, July 2000-January 2001. Prior to July 2000, she was Executive Vice President -- Retail Markets of U S WEST August 1998-June 2000; President and Chief Executive Officer of U S WEST Long Distance June 1998-August 1998; President and Chief Executive Officer of Avirnex Communications Group December 1997-June 1998; President and Chief Operating Officer of Avirnex July 1997-December 1997; President and Chief Executive Officer of Pacific Bell Communications, Pacific Telesis from 1995-July 1997; Vice President, Business Market Group of Pacific

Telesis in 1995; Customer Service Vice President, Data Communication Services of AT&T 1994-1995. She is a director of Astracon Inc., a company specializing in connectivity intelligence software, Zantaz.com, a firm that provides Internet based services, Portview Communications, a telecommunications company, and Serco Group PLC in the UK. She is a member of the Nominating Committee of the board of directors of Principal Life. Effective August 21, 2001, Ms. Bernard will be Chair of the Nominating Committee and a member of the Board-Management Committee of the board of directors of Principal Life and Principal Financial Group, Inc.

JOCELYN CARTER-MILLER has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since February 1999. Ms. Carter-Miller has been Corporate Vice President and Chief Marketing Officer of Motorola, Inc. since February 1999. Prior to February 1999, she held the following positions with Motorola: Vice President, CLQC, Consumer Solutions Group, Personal Communications Sector 1998-1999; Vice President and General Manager, Worldwide Networks Division 1997-1998; Vice President of Latin American and Caribbean Operations 1994-1997. She is a member of the Audit and Strategic Issues Committees of the board of directors of Principal Life and, effective August 21, 2001, will assume the same positions with Principal Financial Group, Inc.

DANIEL GELATT has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since August 1988. Mr. Gelatt has been President of NMT Corporation, a computer software and microfilm service business, since 1986. He is the Chair of the Human Resources Committee and a member of the Executive and Board-Management Committees of the board of directors of Principal Life. Effective August 21, 2001, Mr. Gelatt will be a member of the Executive, Human Resources and Board-Management Committees of the board of directors of Principal Life and Principal Financial Group, Inc.

SANDRA L. HELTON has been a director of Principal Financial Group, Inc. since May 21, 2001 and a Principal Life director since May 21, 2001. Ms. Helton has been Executive Vice President and Chief Financial Officer of Telephone & Data Systems, Inc. since 1998. Prior to 1998, she was Vice President and Corporate Controller of Compaq Computer Corporation from 1997-1998. From 1994-1997, Ms. Helton was Senior Vice President and Treasurer of Corning Incorporated. She is director of Telephone & Data Systems, Inc., a diversified telecommunications corporation. She is a member of the Audit Committee of the board of directors of Principal Life and, effective August 21, 2001, Ms. Helton will assume the same position with Principal Financial Group, Inc.

CHARLES S. JOHNSON has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since October 1995. Mr. Johnson is the retired Executive Vice President of DuPont, a position he held in 1999. Prior to his position with DuPont, he was Chairman, President and Chief Executive Officer of Pioneer Hi-Bred International, Inc. from December 1996-1999, President and Chief Executive Officer from September 1995-December 1996. He is a director of Gaylord Container Corporation, a manufacturer of corrugated containers. He is a member of the Audit and Strategic Issues Committees of the board of directors of Principal Life and, effective August 21, 2001, Mr. Johnson will assume the same positions with Principal Financial Group, Inc. and will become a member of the Pricing Committee of the board of directors of Principal Financial Group, Inc.

WILLIAM T. KERR has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since February 1995. Mr. Kerr has been Chairman and Chief Executive Officer of Meredith Corporation since January 1998. He served as President and Chief Executive Officer of Meredith from 1997-1998 and as Meredith's President and Chief Operating Officer from 1994-1997. He is a director of Meredith Corporation, a media and marketing company, Maytag Corporation, a manufacturer of household appliances, and Storage Technology Corporation, a manufacturer of information storage and retrieval devices. He is the Chair of the Nominating and Strategic Issues Committees and a member of the Executive and Board-Management Committees of the board of directors of Principal Life. Effective August 21, 2001, Mr. Kerr will be Chair of the Human Resources and Strategic Issues Committees and a member of the Executive and Board-Management Committees of Principal Life and Principal Financial Group, Inc. and a member of the Pricing Committee of the board of directors of Principal Financial Group, Inc.

LEE LIU has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since August 1990. Mr. Liu is the retired Chairman of the Board of Alliant Energy Corporation, a position he held from 1998-2000. Prior to his position with Alliant, he was Chairman and Chief Executive Officer of IES Industries from 1996-1999 and was IES's Chairman, President and Chief Executive Officer from 1993-1996. He is a director of Alliant Energy Corporation and Eastman Chemical Company, a manufacturer of industrial products. He is a member of the Executive, Human Resources and Board-Management Committees of the board of directors of Principal Life. Effective August 21, 2001, Mr. Liu will be a member of the Executive and Human Resources Committees of the board of directors of Principal Life and Principal Financial Group, Inc.

VICTOR H. LOEWENSTEIN has been a director of Principal Financial Group, Inc. since April 24, 2001 and a director of Principal Life since August 1991. Mr. Loewenstein has been managing partner of Egon Zehnder International, a management consulting firm, since 1979. He is a member of the Nominating Committee of the board of directors of Principal Life and, effective August 21, 2001, will assume the same position with Principal Financial Group, Inc.

RONALD D. PEARSON has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since June 1996. Mr. Pearson has been Chairman, President and Chief Executive Officer of Hy-Vee, Inc., a

retail grocer, since 1989. He is a member of the Human Resources Committee of the board of directors of Principal Life and, effective August 21, 2001, will assume the same position with Principal Financial Group, Inc.

FEDERICO F. PENA has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since November 1999. Mr. Pena has been Managing Director of Vestar Capital Partners, an investment firm specializing in management buyouts, recapitalizations and growth capital investments, since 2000. He served as Vestar's Senior Advisor from 1998-2000. Prior to his employment with Vestar, Mr. Pena was Secretary of the U.S. Department of Energy from 1996-1998 and Secretary of the U.S. Department of Transportation from 1993-1996. He is a director of Marsico Funds, which are mutual funds, Valor Communications, a telecommunications company, and Sonic, Inc. He is a member of the Nominating Committee of the board of directors of Principal Life and, effective August 21, 2001, will assume the same position with Principal Financial Group, Inc.

DONALD M. STEWART has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since June 1979. Mr. Stewart has been President and Chief Executive Officer of The Chicago Community Trust, a philanthropic organization, since June 2000. Prior to June 2000, he was Senior Program Officer and Special Advisor to the President at the Carnegie Corporation of New York from July 1999-May 2000, and President of The College Board from 1986-June 1999. He is a director of The Campbell Soup Company, a food and beverage manufacturing firm, and The New York Times Company, a diversified media company. He is a member of the Human Resources Committee of the board of directors of Principal Life. Effective August 21, 2001, Mr. Stewart will be a member of the Nominating Committee of the board of directors of Principal Life and Principal Financial Group, Inc.

ELIZABETH E. TALLETT has been a director of Principal Financial Group, Inc. since April 24, 2001 and a Principal Life director since May 1992. Ms. Tallett has been President and Chief Executive Officer of Galenor Inc., a research pharmaceutical company, since 1999 and has also been President and Chief Executive Officer of Dioscor Inc., a pharmaceutical and biotechnology firm, since 1996. Prior to 1996, she was President and Chief Executive Officer of Transcell Technologies, Inc. She is a director of Coventry Health Care, Inc., a managed health care company; IntegraMed America, Inc., a health services company, Varian, Inc., a supplier of scientific instruments, and Varian Semiconductor Equipment Associates, Inc., a semiconductor equipment company. She is Chair of the Audit Committee and a member of the Board-Management Committee of the board of directors of Principal Life. Effective August 21, 2001, Ms. Tallett will be Chair of the Audit Committee and a member of the Board-Management Committee of the board of directors of Principal Life and Principal Financial Group, Inc. and a member of the Pricing Committee of Principal Financial Group, Inc.

JOHN E. ASCHENBRENNER who heads the Life and Health Insurance and Mortgage Banking segments of our operations has been Executive Vice President of Principal Financial Group, Inc. since April 25, 2001 and Executive Vice President of Principal Life since January 2000. From 1996-1999, he was Senior Vice President of Principal Life and from 1990-1995, he was Vice President -- Individual Markets of Principal Life. Mr. Aschenbrenner serves as a director of the 28 mutual funds that comprise the Principal Family of Mutual Funds.

MICHAEL T. DALEY who heads Marketing and Distribution has been Executive Vice President of Principal Financial Group, Inc. since April 25, 2001 and Executive Vice President of Principal Life since June 2000. From 1997-2000, he was Senior Vice President of CIGNA Retirement and Investment Services and from 1992-1997, he was Managing Director of Bankers Trust Company.

DENNIS P. FRANCIS has been Chief Executive Officer of Principal Capital Management since 1999. He has been Senior Vice President of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President and Chief Investment Officer of Principal Life since 1998. From 1990-1997, he was Vice President -- Commercial Real Estate of Principal Life.

MICHAEL H. GERSIE has been Executive Vice President and Chief Financial Officer of Principal Financial Group, Inc. since April 25, 2001 and Executive Vice President and Chief Financial Officer of Principal Life since January 2000. From 1994-1999, he was Senior Vice President of Principal Life.

ELLEN Z. LAMALE has been Senior Vice President and Chief Actuary of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President and Chief Actuary of Principal Life since June 1999. From 1992-1999, she was Vice President and Chief Actuary of Principal Life.

MARY A. O'KEEFE who heads Corporate Relations and Human Resources has been Senior Vice President of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President of Principal Life since January 1998. From 1994-1997, she was Vice President -- Corporate Relations of Principal Life.

RICHARD L. PREY who heads the U. S. Asset Accumulation business has been Executive Vice President of Principal Financial Group, Inc. since April 25, 2001 and Executive Vice President of Principal Life since January 2000. From 1997-1999, he was Senior Vice President of Principal Life, from 1996-1997, he was Vice President -- Pension of Principal Life and from 1993-1996, he was President and Chief Executive Officer of Delaware Charter Guarantee & Trust Company, an indirect subsidiary of Principal Life.

KAREN E. SHAFF has been Senior Vice President and General Counsel of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President and General Counsel of Principal Life since January 2000. From June 1999-December 1999, she was Senior Vice President and Deputy General Counsel of Principal Life, and from 1995-May 1999, she was Vice President and Associate General Counsel of Principal Life. She is a director of HealthExtras, Inc.

NORMAN R. SORENSEN has been President of Principal International, Inc. since 1998 and has been Senior Vice President of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President of Principal Life since December 1998. From 1989-November 1998, he was Vice President and Senior Executive -- Latin America, American International Group.

CARL C. WILLIAMS has been Senior Vice President and Chief Information Officer of Principal Financial Group, Inc. since April 25, 2001 and Senior Vice President and Chief Information Officer of Principal Life since July 1997. From 1993-1997, he was Vice President -- Information Technology of Amoco Oil.

COMPOSITION OF BOARD AND COMMITTEES

Principal Financial Group, Inc. is managed under the direction of its board of directors. Its board of directors was initially composed of 13 directors, 11 of whom were not officers, and has added one additional director, who is not an officer. Principal Financial Group, Inc. has also established the following standing committees of the board of directors:

AUDIT COMMITTEE

The Audit committee of Principal Financial Group, Inc. was chosen by the board of directors from those members who are not officers of Principal Financial Group, Inc. or its subsidiaries. The Audit committee will recommend to the board of directors a firm of independent certified public accountants to annually audit the books and records. The Audit committee will review and report on the activities of the independent certified public accountants to the board of directors and review and advise the board of directors as to the adequacy of Principal Financial Group, Inc.'s system of internal accounting controls.

HUMAN RESOURCES COMMITTEE

The Human Resources committee of Principal Financial Group, Inc. was chosen by the board of directors from those members who are not officers of Principal Financial Group, Inc. or its subsidiaries. The Human Resources committee will make recommendations to the board of directors regarding salaries and any supplemental employee compensation of the executive officers and act upon management's recommendations for salary and supplemental employee compensation policies for all other employees.

OTHER COMMITTEES

The board of directors may form such other committees of the board of directors as it deems appropriate.

COMPENSATION OF DIRECTORS

The compensation for our directors who are not officers or employees of Principal Mutual Holding Company or its subsidiaries consists of a $31,500 annual retainer plus a $2,500 per day attendance fee for each regular or special board meeting attended in person. These directors are also compensated for participation on committees. We anticipate that, following the conversion, the directors of Principal Financial Group, Inc. will be identical to the directors of Principal Life. We do not currently plan to pay any additional compensation to directors for also participating on the board of directors of Principal Life.

In addition, following the conversion, directors who are not officers or employees will receive initial and annual grants of options and are eligible for discretionary grants of options pursuant to the directors stock plan. Non-employee directors also receive an initial grant of RESTRICTED STOCK UNITS and a grant of Restricted Stock Units upon re-election to the board, and are eligible for discretionary grants of RESTRICTED STOCK or Restricted Stock Units pursuant to the directors stock plan. The annual retainer payable to directors will be reduced by $7,500 upon the grant of awards under the directors stock plan. A description of our directors stock plan is provided below.

Principal Financial Group, Inc. intends to adopt a directors deferred compensation plan pursuant to which each non-employee director who receives a cash retainer and meeting fees would have the right to defer all or a portion of such payments into an account and would be deemed to be invested in common stock.

COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table sets forth the compensation paid to our chief executive officer and the four other most highly compensated executive officers employed as of December 31, 2000, for services rendered during the fiscal year ended December 31, 2000:

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS(1)	LTIP PAYOUTS(2)	ALL OTHER COMPENSATION(3)
J. Barry Griswell.....					
President, CEO	2000	$841,346	$378,606	$316,888	$33,783
David J. Drury.....					
Chairman	2000	825,000	371,250	479,538	37,205
Michael H. Gersie.....					
EVP, CFO	2000	333,269	134,974	303,737	13,978
Richard L. Prey.....					
EVP	2000	328,269	132,949	301,087	12,592
John E. Aschenbrenner.....					
EVP	2000	318,269	128,899	295,727	13,211

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(1) The amounts shown represent the 2000 incentive compensation awards paid in 2001 under the Principal Financial Group incentive pay plan.

(2) The amounts shown represent the payout of the 1998 long-term performance award in respect of the 1998 through 2000 cycle under the Principal Financial Group long-term performance plan. Amounts shown include amounts paid as well as deferred.

(3) The amounts shown represent the total of our contributions to our employees savings plan in which all of our employees are generally eligible to participate, and contributions to our excess plan, our non-qualified supplemental executive retirement plan. For the year ending December 31, 2000, our contribution to the employees savings plan for each named executive officer was $3,938 (the maximum allowable contribution under the plan). Our contributions to the excess plan for the year ending December 31, 2000, for these officers were as follows: Mr. Griswell, $29,845; Mr. Drury, $33,268; Mr. Gersie, $10,041; Mr. Prey, $8,654; and Mr. Aschenbrenner, $9,273. The amount set forth for Mr. Prey in this column does not include matching contributions made by us in the year 2000 in respect of his salary and bonus for 1999.

EMPLOYMENT AGREEMENTS

We have previously entered into an employment agreement with J. Barry Griswell, pursuant to which Mr. Griswell will continue in his capacity as our president and chief executive officer for an employment term of three years from the date of the employment agreement. This three-year term will automatically be extended for additional two-year terms unless either Mr. Griswell or we notify the other of the intention not to extend the agreement. Mr. Griswell's annual salary under this agreement is $850,000, periodically increased in accordance with our regular policy, and he participates in our incentive compensation plans, long-term performance plan and qualified and non-qualified savings and retirement plans.

The employment agreement provides that Mr. Griswell would be entitled to certain severance benefits in the event that his employment terminates under certain circumstances. These benefits are substantially similar to the severance benefits to which Mr. Griswell would be entitled pursuant to the "change in control" agreement described below, except that in the case of a termination of his employment where there has not been a change of control, Mr. Griswell, pursuant to the terms of his employment agreement, will generally be entitled to two times the amounts indicated below, not three times.

We have entered into "change in control" employment agreements with Mr. Griswell and with each of the other named executive officers that provide each executive with assurances as to the terms and conditions of his employment and as to the termination benefits that would be payable to him upon a termination of employment relating to a change of control (as defined in the agreements and as set forth below). The purpose of these agreements is to assure the covered executive that, following a change of control or related events, he will receive substantially comparable compensation and benefits and have substantially comparable terms and conditions of employment as those he enjoyed prior to the occurrence of such event. To that end, in the event of a change of control, these agreements:

- mandate that the executive receive specified levels of salary, incentive compensation and benefits for a period of not less than two years following the occurrence of a change of control;

- provide for the immediate vesting of all options and shares of Restricted Stock then held by each executive, unless the applicable merger agreement provides that the options are to be assumed by the acquirer, in which case only the Restricted Stock will vest; however, there can be no exercise of options nor distribution of Restricted Stock awards until eighteen months following the completion of the demutualization;

- provide for a payment to be made to each executive, within 10 days of a change of control, of a pro rata portion of any annual bonus and/or long-term incentive award then outstanding, in respect of the applicable periods prior to the change of control;

- provide that each executive will vest and be paid, within 10 days of a change of control, the outstanding account balances under any non-qualified deferral or supplemental benefits program, whether vested or unvested; and

- assure each executive of receiving a specified level of termination benefits in the event that his employment is terminated without "cause" or by the executive voluntarily for "good reason."

For this purpose, good reason means adverse changes in the terms and conditions of the executive's employment, including:

- any failure to pay the executive's base salary or any required increase in salary;

- any failure to pay the executive's annual bonus or any reduction in the executive's annual bonus opportunity;

- any material adverse change in the executive's position (including offices, titles or reporting requirements, but not reporting responsibilities), authority or duties under the agreement; or

- any material reduction in the executive's aggregate compensation and benefits or requiring the executive to be based at any office or location other than the location at which he worked prior to the change of control.

The benefits to be paid or provided under the agreements upon a qualifying termination include:

- a lump sum severance benefit equal to three times the sum of the executive's annual base salary, target annual bonus and annualized target long-term bonus; provided that the annualized target long-term bonus will not be included as part of the severance benefits if the executive's termination occurs on or after the third anniversary of the date we first make a grant of stock options to a peer executive;

- the immediate vesting of all stock options and shares of Restricted Stock or similar awards then held, except that there can be no option exercise or distribution of Restricted Stock until eighteen months following the completion of the demutualization;

- a pro-rated annual bonus for the year of termination and a pro-rated long-term incentive plan payment for each cycle then in progress, minus, in each case, the amount, if any, paid in respect of such annual or long-term incentive plan at the time of the change of control;

- the unpaid account balances under any non-qualified deferral or supplemental benefits program, whether vested or unvested;

- the lump sum value of the additional retirement benefits the executive would have accrued had he or she become fully vested in all such previously-unvested benefits, accrued three additional years of service and received the lump-sum severance benefits described above, excluding the long-term incentive plan bonuses, as covered compensation during such assumed additional years of service;

- an additional payment to offset any excise tax imposed under section 4999 of the Internal Revenue Code, but only if the after-tax amount of the additional payment would exceed 10% of the after-tax benefits the executive would receive if the executive's benefits were limited to an amount such that the payments would not be subject to the excise tax; and

- the reimbursement for legal fees and other related expenses required to secure, preserve or obtain benefits under the agreement.

In addition, until the third anniversary of the date of the executive's termination, the executive shall continue to receive welfare benefits, including medical, prescription, dental, disability, salary continuance, individual life, group life, accidental death and travel accident insurance plans and programs, which are at least as favorable as the most favorable programs at the same costs applicable to peer executives and their families who are actively employed after such termination date.

In exchange for these benefits, Mr. Griswell has agreed that for two years, and the other named executive officers have agreed that for one year, following a termination of employment that results in the executive receiving severance benefits as described above, the executive will not engage or participate in, or become employed by or serve as a director of or consultant to, a competing business; nor will the executive solicit employees or customers, or interfere with the relationship we have with our employees or customers.

For purposes of these agreements, following the effective date of this offering, a change of control will mean any one or more of the following events:

- any person becoming the beneficial owner of 25% or more of our common stock;

- the individuals then serving as members of our board of directors who were members of such board as of the date of the agreement cease for any reason to constitute at least a majority of the board of directors, provided that, for this purpose, any subsequently-appointed or elected member of the board of directors whose election or nomination for election (unless such election, nomination or appointment was in connection with an actual or threatened proxy contest) was approved by a vote or written consent of at least a majority of the incumbent directors then in office and the directors elected or nominated in a manner consistent with the conditions of this provision shall be treated as an incumbent director; or

- the consummation of a merger, reorganization, consolidation or similar transaction other than a transaction immediately following which the stockholders of Principal Financial Group, Inc. continue to own more than 60% of the voting securities of the surviving corporation or its ultimate parent corporation; or approval by the stockholders of Principal Financial Group, Inc. of a plan or agreement for the sale or other disposition of all or substantially all of its consolidated assets or a plan of liquidation.

However, if specific conditions are met, a reorganization transaction of the type outlined in the third item above may not trigger the full protection otherwise afforded to management under such agreements because the requisite conditions will afford management reasonable protection that there will be a reasonable continuity of the business conditions that existed prior to the occurrence of such event. These conditions are that:

- immediately following any such transaction, the stockholders of Principal Financial Group, Inc. must continue to own more than 40% of the voting securities of the surviving corporation or its ultimate parent corporation;

- no person is or becomes the beneficial owner of 25% or more of the voting securities of the corporation surviving such reorganization transaction, or its parent;

- for two years, directors who were in office immediately preceding the reorganization transaction continue to constitute not less than (i) a majority of the board of directors if, immediately following any such transaction, the stockholders of Principal Financial Group, Inc. continue to own more than 50% of the voting securities of the surviving corporation or its ultimate parent corporation or (ii) one member less than a majority of the board of directors, if immediately following any such transaction, the stockholders of Principal Financial Group, Inc. continue to own more than 40% but less than 50% of the voting securities of the surviving corporation or its ultimate parent corporation; and

- the person who was the chief executive officer of Principal Financial Group, Inc. immediately prior to the first to occur of (x) the day prior to the first occurrence of certain events leading to the transaction or (y) the day prior to the effective date of the transaction shall serve as the chief executive officer of the surviving corporation at all times during the period commencing on the effective date and ending on the first anniversary of the effective date.

If any of the conditions described in the second, third or fourth items above cease to be satisfied, then the full benefit of the protection afforded under such agreements will become operative.

STOCK INCENTIVE PLAN

Our Human Resources committee will be responsible for administering the Principal Financial Group, Inc. stock incentive plan. Under the stock incentive plan, the Human Resources committee may from time to time grant to our officers, employees and agents stock options, STOCK APPRECIATION RIGHTS, Restricted Stock and Restricted Stock Units. The Human Resources committee may not grant any awards to employees or agents under the stock incentive plan that will take effect prior to 30 days following the completion of the demutualization and may not make any grants to any of our executive officers until six months after the completion of the demutualization.

The maximum number of shares of common stock that may be issued under the stock incentive plan, together with the excess plan (our non-qualified defined contribution retirement plan), the directors stock plan (described below), the long-term performance plan (described below) and any new plan awarding our common stock, in the five years following the completion of the demutualization, is 6% of the number of shares outstanding immediately following the completion of the demutualization, unless shareholders vote to increase the maximum number. The number of shares that may be awarded in the eighteen months following the completion of the demutualization is limited to 40% of such maximum. During any three-year period, no individual participant may be granted awards in respect of more than 10% of the total shares available for issuance under the plan.

The Human Resources committee may permit participants to defer receipt of shares of common stock that would otherwise be issued in connection with an award under the plan.

It is expected that the Human Resources committee will make a one-time, nonrecurring grant of options to most of our employees including, at the discretion of the Human Resources committee, our agents who are statutory employees, 30 days after the completion of the demutualization. The purpose of this one-time company-wide grant is to encourage the work force to be aware of the impact that their performance can have on the financial success of the enterprise taken as a whole. Employees with a title equivalent or senior to Second Vice President will not participate in the one-time company-wide grant. None of the participants in the long-term performance plan described below will participate in the one-time company-wide grant. Each option granted in the one-time company-wide grant will become exercisable in full on the date which is three years from the date of the one-time company-wide grant.

The shares to be issued under the stock incentive plan may be unissued shares or treasury shares. Upon the occurrence of events that affect our capitalization, appropriate adjustments may be made in the number and kind of shares that may be issued under the stock incentive plan in the future and in the number and kind of shares and price per share under all outstanding stock options and Stock Appreciation Rights granted before the event. Notwithstanding the foregoing, if any grant made under the stock incentive plan is for any reason canceled, terminated or otherwise settled without the issuance of some or all of the shares of common stock subject to the grant, such shares will be available for future grants.

The Human Resources committee may condition the grant of any option or other award upon the recipient agreeing to conditions or covenants in favor of Principal Financial Group, Inc. and/or one or more of its subsidiaries that may have effect following the termination of the recipient's employment. These conditions and covenants may include restrictions on the ability to transfer the underlying shares of common stock or covenants not to compete, not to solicit employees and customers and not to disclose confidential information. The Human Resources committee may also require that, after an option or other award has been exercised, the recipient disgorge any profit, gain or other benefit received from the option if the optionee breaches any of these commitments. These provisions will not apply to the one-time company-wide grant described above.

The Human Resources committee may grant nonqualified stock options to officers, employees and agents and may grant stock options qualifying as incentive stock options under the Internal Revenue Code to officers and employees, including agents who are statutory employees. The maximum number of shares issuable pursuant to incentive stock options that may be awarded under the plan is 10,000,000. The exercise price per share of common stock subject to either a nonqualified stock option or an incentive stock option will be not less than the fair market value, as defined in the stock incentive plan, of such share on the date of grant. To exercise an option, an option holder may pay the exercise price in cash or, if permitted by the Human Resources committee, by delivering on the date of exercise other shares of common stock having an aggregate fair market value equal to the exercise price of the option or by delivering some combination of cash and other shares of common stock. An option may also be exercised through an arrangement with a broker approved by the Human Resources committee whereby payment of the exercise price is accomplished with the sale of common stock.

Other than options granted with respect to the one-time company-wide grant as described above, each option will generally become exercisable in three approximately equal installments on each of the first three anniversaries of the date of the grant of the option. The term of each option will be fixed by the Human Resources committee but may not be more than ten years from its date of grant. Notwithstanding any other provision of the plan, no option shall become exercisable earlier than 18 months following the completion of the demutualization, except in cases of accelerated exercisability due to death or disability of any employee, due to the approved retirement of any employee who is below the level of Second Vice President or, in limited circumstances, as approved by the Insurance Commissioner of the State of Iowa.

In the event an employee terminates service by reason of disability or death, all options then held by the employee, whether or not then exercisable, will become immediately exercisable and will generally remain exercisable for a period of three years or for such shorter period as the Human Resources committee shall determine at the time of grant. In the event an employee terminates service by reason of normal or approved early retirement, all options then held by the employee will become immediately exercisable and will remain exercisable for a period of three years or for such other period as the Human Resources committee shall determine at the time of grant, subject to the last sentence in the previous paragraph. In the event an employee's service terminates for cause or by resignation, other than in the circumstances addressed above, he or she will lose all of his or her outstanding options, whether or not then exercisable. In general, in the event an employee terminates service for any reason other than those listed above, all options then held by the employee that are then exercisable will remain exercisable for a period of 90 days. Of course, regardless of the rules regarding when an option can be exercised after termination, no option will be exercisable after its stated maximum term.

The Human Resources committee may also grant Stock Appreciation Rights to employees, officers and agents that can either be free standing awards or awards that are related to a stock option in such a way that the exercise of either the Stock Appreciation Right or the stock option will cause the cancellation of the other award. The terms and conditions applicable with respect to any grant of a Stock Appreciation Right will be substantially the same as apply to the grant of a stock option. This means that the vesting of a Stock Appreciation Right, and the time that a recipient of a

Stock Appreciation Right will have to exercise the Stock Appreciation Right after the termination of his or her service with Principal Financial Group, Inc. and its affiliates, will be substantially the same as applies to a stock option.

Upon the exercise of a nonqualified option, the option holder will generally recognize ordinary income in an amount equal to the difference between the then fair market value of the common stock being purchased and the exercise price paid to acquire such stock. We will generally be entitled to take a federal income tax deduction in the amount of ordinary income recognized by the employee. Upon the sale of the underlying stock after satisfying the holding period requirement that the stock be held for one year following the exercise of the option, an employee will recognize long-term capital gain (loss) to the extent that the sale price received exceeds (or is less than) the fair market value of the stock at the time of exercise. The tax treatment of a Stock Appreciation Right is essentially the same as is applicable in respect of a nonqualified stock option.

The exercise of an incentive stock option generally does not result in any federal income tax consequences. Upon the sale of the underlying stock after satisfying the applicable holding period requirements, including a requirement that the stock be held until one year following the exercise of the option and two years following the date of grant, an employee will recognize long-term capital gain (loss) to the extent that the sale price received exceeds (or is less than) the price paid to purchase the stock. If the holding periods are not satisfied, the tax consequences with respect to an incentive stock option are generally the same as those that apply to a nonqualified stock option, except that the amount of ordinary income realized by the employee will not exceed the excess of the amount received by an employee in any sale over the employee's exercise price to purchase the stock.

The Human Resources committee also has the right to grant awards of Restricted Stock to our employees, officers and agents at such times and for such number of shares of common stock as the Human Resources committee may determine. The Human Resources committee may elect to grant any such person Restricted Stock Units, which are contractual rights to receive shares of common stock or cash in an amount equal to the value of a specified number of shares of common stock in the future, after the satisfaction of specified vesting conditions, that is the economic equivalent of an award of Restricted Stock. Any such award of Restricted Stock Units shall be in substantially the same terms as an award of Restricted Stock. Notwithstanding any other provision of the plan, no award shall become exercisable or distributable earlier than 18 months following the completion of the demutualization, except in cases of accelerated exercisability or distribution due to death or disability of any employee, due to the approved retirement of any employee who is below the level of Second Vice President or, in limited circumstances, with the approval of the Insurance Commissioner of the State of Iowa.

Unless the Human Resources committee otherwise specifies at the time of grant, a pro rata portion of any shares related to Restricted Stock held by an employee, officer or agent whose service terminates due to his or her death, disability or approved retirement, will vest at such termination, based upon his or her service completed through such date of termination, subject to the requirements of the last sentence in the previous paragraph. Upon any other termination, any shares of Restricted Stock that have not previously vested will be forfeited unless the Human Resources committee otherwise determines.

Generally, an employee, officer or agent who receives Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to those shares. However, if any dividends or distributions are paid in shares of common stock, the shares received as a dividend or distribution will be subject to the same forfeiture restrictions and restrictions on transferability as apply to the Restricted Stock with respect to which they were paid. Additionally, the Human Resources committee may specify at the date of grant that any cash dividends on shares of Restricted Stock will not be paid currently, but rather be credited to an account established for the benefit of the recipient of the Restricted Stock and invested in shares of common stock on the distribution date of such dividend. Any additional shares credited in respect of dividends shall become vested and nonforfeitable, if at all, on the same terms and conditions as are applicable in respect of the Restricted Stock with respect to which such dividends were payable.

Generally, an employee, officer or agent who receives Restricted Stock will have ordinary income at the time that the Restricted Stock is no longer subject to forfeiture in an amount equal to the fair market value of the common stock at that time less the amount, if any, paid for the Restricted Stock. Such a person may elect, within 30 days of the date of any Restricted Stock grant, to be taxed at the time of the grant based on the then current value of the common stock.

Upon the occurrence of a change of control, as defined above with respect to the change of control employment agreements, all outstanding options and Stock Appreciation Rights shall immediately become exercisable, the restrictions applicable to any Restricted Stock or Restricted Stock Unit award shall lapse and any such award may be cashed out at the discretion of the Human Resources committee; except that no such acceleration of exercisability or lapse of restrictions shall occur prior to eighteen months following the completion of the demutualization. However, unless provided otherwise in change of control employment agreements, if the Human Resources committee determines that the acquiring or surviving entity, or a parent of such entity, will replace the outstanding options, Stock Appreciation Rights and awards of Restricted Stock and Restricted Stock Units or otherwise assume and honor such options, Stock Appreciation Rights or awards on terms that preserve their economic value at the time of the change of control and protect the employees against a forfeiture arising out of an involuntary or specified types of constructive

termination, the ability of the employees to exercise options or Stock Appreciation Rights will not accelerate and the restrictions related to Restricted Stock and Restricted Stock Units will not lapse at the time of the change of control.

Our board of directors may terminate, suspend or amend the stock incentive plan at any time, but such termination, suspension or amendment may not adversely affect any stock options, Stock Appreciation Rights or Restricted Stock or Restricted Stock Unit awards then outstanding under the stock incentive plan without the consent of the recipients of such an award. No amendment to the plan may be made without the approval of the Insurance Commissioner of the State of Iowa in the eighteen months following the completion of the demutualization. Unless earlier terminated by action of our board of directors, the stock incentive plan will continue in effect until the tenth anniversary of the date the stock incentive plan was adopted. Stock options and Stock Appreciation Rights granted prior to such date will continue in effect until they expire in accordance with their terms.

LONG-TERM PERFORMANCE PLAN

We also maintain the Principal Financial Group, Inc. long term performance plan, which provides the opportunity for eligible executives to share in the success of Principal Financial Group, Inc., if specified minimum corporate performance objectives are achieved over a three calendar year period. Under the long-term plan, senior officers are awarded a number of performance units at the discretion of the Human Resources committee. Over the three year performance period, the number of performance units held by an executive will be adjusted by a performance multiplier. This multiplier is a percentage determined based on a matrix established by the Human Resources committee at the beginning of the performance period. The matrix will establish the various performance objectives to be achieved and the levels of reward that participating employees will receive at stated levels of performance. The amount payable to each eligible executive is equal to the product of the number of performance units initially awarded, multiplied by the percentage derived from the performance matrix, and by the value of such unit as determined at the end of the performance period. Currently, the value of a performance unit is determined using a multiple of 10 times the product of the average return on equity for the prior three years and the adjusted consolidated GAAP equity as of the end of the performance period, divided by the number of initial performance units for that performance period. For the performance period commencing after the date of this offering, the value of a performance unit will be equal to the average 20 day trading price of the common stock at the end of the last year in the performance period. For performance periods already commenced but not completed when this offering occurs, the Human Resources committee may determine the value of a performance unit based on the above formula or the price of the common stock on a date determined by the Human Resources committee. For this purpose, to assure that each participant does not receive a penalty or a windfall in the event performance units are based on the stock price, the number of performance units outstanding will be adjusted by the Human Resources committee to reflect the relative values of the common stock and the outstanding performance units at such time. Notwithstanding the foregoing, in no event shall any payment be made in respect of any performance period if the threshold performance objectives established by the Human Resources committee with respect to such performance period are not satisfied. Unless the Human Resources committee shall otherwise determine, payment of such amount shall be made in cash, stock or a combination of cash and stock. If any stock is used for payment, the maximum number of shares that can be awarded under this plan, together with our stock incentive plan (described above), the excess plan (our non-qualified defined contribution retirement plan), the directors plan (described below), and any new plan awarding our common stock, in the five years following the completion of the demutualization is 6% of the number of shares outstanding immediately following the completion of the demutualization, unless the shareholders vote to increase the maximum number, and the number of shares that may be awarded in the eighteen months following the completion of the demutualization is limited to 40% of such maximum. No awards or payments in the form of stock may be made under the long-term performance plan prior to six months following the completion of the demutualization.

Generally, an executive who receives a grant of performance units must remain employed by Principal Financial Group, Inc. or one of its subsidiaries for the entire performance period to receive any payment under the long-term plan. In the event of termination of employment due to an executive's death, disability or qualifying retirement, all or, if the termination occurs in the first year of the performance period, a pro-rated portion of the amount that would have been payable to the executive had he or she continued to be employed will still be paid to such executive. An executive may elect to defer payment of all or a portion of amounts otherwise payable under the long-term performance plan for up to five years or until the termination of the executive's employment. No amounts other than those previously deferred will be payable to an executive whose employment is terminated for cause.

Listed below are the awards granted in 2000 under the terms of the long-term plan with respect to the 2000-2002 performance period. The threshold objectives for this period are:

- consolidated GAAP equity, as adjusted, for the year ending simultaneously with the end of the performance period, stated as a percentage of the general account assets of Principal Life, must be at least 6%;

- the risk based capital ratio of Principal Life must be at least 150%;

- the return on equity for the last calendar year in the performance period must exceed a minimum level established for such performance period in the performance matrix; and

- operating earnings must exceed a minimum level established for such performance period in the performance matrix.

The sum of all awards payable pursuant to any performance period shall not exceed 5% of pre-tax GAAP operating earnings for the third year of the performance period.

Within ten (10) days following a change of control or the date the full conditions protecting management in the event of a reorganization transaction fail to be satisfied, as outlined above under the heading "Employment Agreements", executive officers and specified other senior officers including the executive officers shall receive under the plan a pro-rated award for service rendered prior to such date.

LONG-TERM INCENTIVE PLANS -- AWARDS IN LAST FISCAL YEAR

NAME	NUMBER OF PERFORMANCE UNITS(1)	PERFORMANCE PERIOD UNTIL MATURATION OR PAYOUT	ESTIMATED FUTURE PAYOUTS BASED ON CURRENT FORMULA		
			THRESHOLD(2)	TARGET(3)	MAXIMUM(4)
J. Barry Griswell, President, CEO	13,314	12/31/02	$ 0	$1,373,472	
David J. Drury, Chairman	12,922	12/31/02	0	1,333,033	
Michael H. Gersie, EVP, CFO	4,198	12/31/02	0	433,065	
Richard L. Prey, EVP	4,135	12/31/02	0	426,566	
John E. Aschenbrenner, EVP	4,010	12/31/02	0	413,671	

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(1) The number of performance units granted is determined by reference to the three year average return on equity for calendar years 1997 through 1999 and other factors including job level. Following this offering, the number of performance units may be adjusted by the Human Resources committee to reflect the relative values of common stock and the number of performance units outstanding at such time.

(2) Payouts under the plan will be zero if minimum performance targets are not met.

(3) Principal Life did not achieve target in the year 2000. See the Summary Compensation Table above for payout information with respect to the year 2000.

(4) Because the formula may be based on the Principal Financial Group, Inc. common stock price in December 2002, the payout under the plan could be unlimited.

INCENTIVE PAY PLAN (PRINPAY)

We also maintain the Principal Financial Group, Inc. incentive pay plan, which each year provides the opportunity for most of our employees to receive additional incentive compensation if specified minimum corporate performance objectives are met for that year. Each eligible employee under the incentive pay plan is given an award opportunity, which is a fixed percentage of the employee's base salary. The amount actually payable in respect of such award opportunity will be adjusted, up or down, based on our actual performance against one or more corporate financial or non-financial measures established by the Human Resources committee for the plan year. Business unit performance measures are determined by the plan administrator. Awards to the named executive officers and other senior officers are based entirely on corporate performance. The measures of corporate performance that may be used under the plan include, but are not limited to, return on equity, operating earnings, earnings before income taxes, depreciation and amortization, budget, customer satisfaction and total shareholder return. Individual performance objectives are also established with respect to more senior employees. Different measures of performance may be used for different employees and the weight afforded to any performance measure may also vary from employee to employee.

However, if any threshold performance objective is not met, no amount will be payable under the incentive pay plan for the applicable year. For 2001 and beyond, unless otherwise specified by the Human Resources committee by March 15 in a subsequent plan year, the threshold objectives are:

- Principal Life must maintain the minimum rating from 2 of the 3 specified rating agencies;

- adjusted consolidated GAAP equity for the end of the plan year, stated as a percentage of the general account assets of Principal Life, must be at least 6%; and

- Principal Life must have a risk based capital ratio of at least 150%.

In no event will the sum of all annual awards under the plan exceed 6% of our pre-tax GAAP operating earnings for the fiscal year. No payment shall be made to any participant who is on final warning any time during the plan year.

Award payments under the incentive pay plan are made in cash following the release of audited results after the end of the plan year in which it is earned, but no later than March 15 of the year following the year in which the services are performed. Generally, a participant must remain in our employ through the end of the plan year, which corresponds to the calendar year, to receive any payment with respect to that plan year. If a participant's employment is terminated due to death during the plan year, his or her beneficiary will receive an early distribution based on the participant's salary received during the plan year multiplied by the deceased employee's award opportunity. If a participant dies after the end of a plan year, his or her beneficiary shall receive a distribution in accordance with the plan at the same time as other participants. If a participant terminates employment due to disability, retirement or such other involuntary termination, he or she will receive a prorated distribution at the same time as the other participants. If a participant's employment is terminated for cause, he or she will not be entitled to receive any further payment with respect to any plan year.

Within ten (10) days following a change of control or the date the full conditions protecting management in the event of a reorganization transaction fail to be satisfied, as outlined above under the heading "Employment Agreements," executive officers and specified other senior officers including the executive officers shall receive under the plan a pro-rated award for service rendered prior to such date.

EMPLOYEE STOCK PURCHASE PLAN

We also have an employee stock purchase plan called the Principal Financial Group, Inc. employee stock purchase plan. The purchase plan offers virtually all employees the opportunity to buy shares of common stock of Principal Financial Group, Inc. at a discount from the prevailing fair market value of our stock. Participation under the plan will commence no earlier than 30 days following the completion of the demutualization, except that executives may not commence participation until six months after the completion of the demutualization. The number of shares of common stock issuable pursuant to options under the plan may not exceed 2% of the total number of shares outstanding immediately following this offering.

Generally, all employees of Principal Financial Group, Inc. and its subsidiaries will be eligible to join the purchase plan. However, the plan administrator has discretion to exclude all of the employees of specific subsidiaries, as well as employees whose customary employment is 20 hours or less per week, employees whose customary employment is not for more than five months in any calendar year and highly compensated employees (but only to the extent necessary to comply with demutualization requirements). Additionally, any employee who owns 5% or more of the total voting power of all classes of stock is excluded from participating in the plan.

Under the purchase plan, participating employees are granted options, each with a term of not more than 2 years, to purchase shares of common stock of Principal Financial Group, Inc. at a price no less than 85% of the share's fair market value as of the date of grant. The Human Resources committee may also allow the exercise price to be as low as 85% of the share's fair market value as of the exercise date, provided that the exercise date price is less than the grant date price. The phrase "fair market value" is defined by the purchase plan to be the per share closing price of the shares reported on the principal exchange, or the last reported trade on the national quotation system, on which such transactions are reported for the trading day immediately preceding the grant date, or the exercise date, if applicable.

An employee may join the purchase plan by authorizing after-tax payroll contributions to be deducted from gross wages. Additionally, if an employee is making payroll contributions, the administrator of the plan may permit him or her to also make cash contributions. The maximum amount which an employee may contribute during any plan year is the lesser of $10,000 (or such greater or lesser amount as determined by the Human Resources committee) and 10% of the employee's salary. An employee may change the amount of payroll contributions to his or her individual account at such intervals as are permitted under the purchase plan. An employee also has the right to completely cease making any further contributions at any time.

There will be at least one exercise date each year. Generally, this date will be the last business day of the calendar year. The plan administrator may select other exercise dates, in its discretion. Prior to any exercise date, each employee may elect to withdraw the contributions made to the employee's account during that offering period. Unless an employee elects such a withdrawal, on the exercise date the cash balance in the employee's account will be used to purchase the maximum number of shares of common stock that can be purchased with such balance. An employee is not permitted to purchase shares pursuant to options granted under the purchase plan which exceed $25,000 in fair market value in any calendar year, due to the Internal Revenue Code requirements. If the employee elects not to have his or her options exercised, his or her contributions for that offering period will be distributed to him or her. Purchased shares will be held by the plan custodian until such time as the participating employee either requests a distribution or terminates employment.

Generally, if an employee leaves Principal Financial Group, Inc. or one of its subsidiaries for any reason other than death or permanent disability, any outstanding options granted to him or her will terminate and his or her individual account will be returned to him or her. If an employee's employment terminates due to death or permanent disability, the employee or his or her designated beneficiary, as applicable, will have the option to elect either to have the employee's contributions distributed or to have the employee's options exercised at the next date of exercise.

Our board of directors may terminate, suspend or amend the purchase plan at any time, but such termination, suspension or amendment may not adversely affect any options then outstanding under the purchase plan without the consent of the recipients of those options. No amendment to the plan may be made without the approval of the Insurance Commissioner of the State of Iowa in the eighteen months following the completion of the demutualization. The shares to be issued under the purchase plan may be authorized but unissued shares. Upon the occurrence of events that affect our capitalization, appropriate adjustments may be made in the number and kind of shares that may be issued under the purchase plan in the future and in the number and kind of shares and price per share under all outstanding grants made before the event. If any grant is for any reason canceled, terminated or otherwise settled without the issuance of some or all of the shares subject to the grant, such shares will be available for future grants.

If a third party acquires Principal Financial Group, Inc., employee contributions are protected and will never be forfeited. With respect to granted options, generally, one of two scenarios will occur: (1) unless the board of directors determines otherwise, the purchase plan will terminate and all shares and cash contributions in each employee's account will be distributed to the employees; or (2) the third-party or new entity may offer to substitute options for its shares in exchange for the employees' options to buy shares. For shares an employee has already purchased, the employee will be treated like every other stockholder.

The grant of an option to purchase shares will not have any tax consequences. Upon the exercise of an option, an employee will not be required to report any taxable income or pay any tax provided that the employee is employed by Principal Financial Group, Inc. or a subsidiary at the time of exercise.

Upon the sale of shares acquired through the purchase plan, an employee will recognize ordinary income to the extent that the price he or she paid for the shares was less than the fair market value of the shares at the date of grant of the opportunity to purchase the shares. Any excess over that amount which is realized upon the sale of such shares will be treated as long-term capital gain. However, to receive this special tax treatment, the employee must hold the shares for at least one year from the date of purchase and until the second anniversary of the date the purchase opportunity was granted.

DIRECTORS STOCK PLAN

Our Human Resources committee administers the directors stock plan. The purpose of the plan is to enable us to attract, retain and motivate the best qualified non-employee directors and to enhance a long-term aligning of interests between such directors and the holders of our common stock. Under the plan, the committee may, from time to time, grant options, Restricted Stock, or Restricted Stock Units to non-employee directors. No committee member may participate in any decisions with respect to that member's benefits under the plan unless the decision applies generally to all non-employee directors.

Six months after the completion of the demutualization, all directors then in office will each receive options to purchase 2,000 shares of common stock. Directors first elected to the board of directors after the six month anniversary of the demutualization will receive an amount of options prorated with respect to the amount of time remaining until the next annual meeting of shareholders. At each annual meeting thereafter, each director then in office will receive options to purchase 2,000 shares of common stock. The exercise price shall not be less than the fair market value of the shares on the date the option is granted. Except as otherwise determined by the committee, options will become exercisable in four approximately equal installments on the third, sixth, ninth and twelfth month anniversaries of the grant date; however, no options shall become exercisable earlier than eighteen months following the completion of the demutualization. To exercise the option, payment must be made in cash, stock, through an arrangement with a broker whereby payment of the exercise price is accomplished with the proceeds of the sale of the shares or any combination of the foregoing. We may not make a loan to a director to facilitate option exercise. Notwithstanding the foregoing, each option shall expire, if not previously exercised in accordance with the terms of the plan, on the tenth anniversary of the grant date.

If a director ceases to provide service to us, the director or, in the case of death, the director's estate or beneficiary, may exercise any option exercisable by such director at the date his or her services terminates for a period of three years, or until the tenth anniversary of the grant date of the option, whichever is earlier.

Six months after the completion of the demutualization, all directors then in office and any subsequently elected director will receive a grant of Restricted Stock Units. The number received by each director will be prorated with respect to the amount of time remaining in such director's term, so that directors whose initial term is the longest will each receive 1,500 Restricted Stock Units. Upon re-election, each director will receive 1,500 Restricted Stock Units. Restrictions on the sale or transfer of Restricted Stock Units shall lapse in substantially equal installments from the date of grant to the date of the end of such director's term, so that portions of each award vest four times

per year.

However, no restrictions shall lapse earlier than the eighteen months following the completion of the demutualization. In the event a director's service shall terminate, any Restricted Stock or Restricted Stock Units awarded to such director as to which the period of restriction has not lapsed shall be forfeited.

Subject to the terms and conditions of the plan, the committee may also grant options, Restricted Stock or Restricted Stock Units to any director at any time, except that (i) no grant may be made before the six month anniversary of the completion of the demutualization; and (ii) during the 18 month period after the completion of the demutualization, the aggregate number of shares granted pursuant to such discretionary option awards shall not exceed 20,000 shares, and the aggregate number of shares granted pursuant to such discretionary Restricted Stock or Restricted Stock Unit awards shall not exceed 15,000 shares. The maximum number of shares that can be awarded under this plan is 500,000 shares of common stock, and such number is counted against the limits referred to in the second paragraph of the description of the stock incentive plan.

RETIREMENT PROGRAM

Principal Life maintains a qualified defined benefit retirement plan, The Principal pension plan, and a nonqualified supplemental pension plan, supplemental executive retirement plan for employees, or SERP. The SERP provides for supplemental pension benefits in excess of the benefit limits provided by the Employee Retirement Income Security Act of 1974 and benefit and compensation limits provided under the Internal Revenue Code.

The table below provides for the estimated maximum annual retirement benefits that a hypothetical participant would be entitled to receive under the combined retirement plans. These benefits are computed on a straight-life annuity basis, age 65 retirement, reduction of an annual social security benefit of $20,028 (maximum allowed in 2001), and the number of credited years of service and average annual recognized earnings equal to the amounts indicated. A participant whose maximum credited years of service exceed 35 years upon retirement at age 65 will be entitled to benefits substantially comparable to the benefits available to a participant whose credited years of service equal 35 years upon retirement at age 65.

PENSION PLAN TABLE

	YEARS OF SERVICE					
REMUNERATION	10	15	20	25	30	35
$300,000	$ 49,992	$ 74,988	$ 99,984	$124,980	$149,976	$174,972
$350,000	59,268	88,908	118,548	148,188	177,828	207,228
$400,000	68,556	102,840	137,124	171,408	205,680	239,964
$450,000	77,844	116,772	155,688	194,616	233,544	272,472
$500,000	87,132	130,692	174,264	217,836	261,408	304,968
$550,000	96,420	144,636	192,840	241,056	289,260	337,476
$600,000	105,708	158,556	211,416	264,264	317,124	369,972
$650,000	114,996	172,488	229,980	287,484	344,976	402,468
$700,000	124,272	186,420	248,556	310,692	372,828	434,976
$750,000	133,560	200,340	267,132	333,936	400,692	467,472
$800,000	142,848	214,272	285,696	357,120	428,544	499,968
$850,000	152,136	228,204	304,272	380,340	456,408	532,476
$900,000	161,424	242,136	322,836	403,548	484,260	564,972
$950,000	170,712	256,056	341,412	426,768	512,124	597,468
$1,000,000	179,988	269,988	359,988	449,976	539,976	629,976

The plans will provide pension benefits for Messrs. Drury, Griswell, Aschenbrenner, Gersie and Prey. "Average final compensation" under the retirement plans will be determined with respect to each executive's salary and bonus under the incentive pay plan. These amounts with respect to 2000 are shown under the "Salary" and "Bonus" columns opposite the names of these executives in the Summary Compensation Table. The years of service with the Company of each of the named executives for eligibility and benefit purposes as of December 31, 2000 were as follows: David J. Drury, 34 years; J. Barry Griswell, 12 years; John E. Aschenbrenner, 28 years; Michael H. Gersie, 30 years; and Richard L. Prey, 35 years. These executives will also receive an additional benefit based on the service they earned prior to January 1, 1989.

REGULATION

U.S. OPERATIONS

Our business is subject to extensive regulation at both the state and federal level, including regulation under state insurance and federal and state securities laws.

STATE INSURANCE REGULATION

GENERAL. Principal Life and its insurance subsidiaries are subject to regulation and supervision by the insurance authorities in each jurisdiction in which they transact business. Currently, Principal Life is licensed to transact business in all fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and seven Canadian provinces, and therefore is subject to regulation in all these jurisdictions. State insurance laws generally establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses, transacting business, establishing guaranty fund associations, licensing agents, approving policy forms, regulating premium rates for some lines of business, establishing reserve requirements, prescribing the form and consent of required financial statements and reports, determining the reasonableness and adequacy of statutory capital and surplus and regulating the type and amount of investments permitted. State insurance departments periodically review the business and operations of an insurance company by examining its financial condition and how it conducts its business in the marketplace and how its agents sell its products. Principal Life and its insurance subsidiaries are also required to file various reports relating to their financial condition, including detailed annual and summary quarterly statutory-basis financial statements. Filings are required in each jurisdiction where Principal Life or an insurance subsidiary is licensed.

State insurance regulatory authorities and other state law enforcement agencies and attorneys general from time to time make inquiries concerning whether our insurance subsidiaries are in compliance with the regulations covering their businesses. We respond to such inquiries in a manner we deem appropriate and take corrective action if warranted.

State insurance regulators and the NAIC are continually reexamining existing laws and regulations and developing new legislation for passage by state legislatures and new regulations for adoption by insurance authorities. Proposed laws and regulations or those still underdeveloped pertain to insurer solvency and market conduct and in recent years have focused on:

- insurance company investments,
- risk-based capital guidelines, which consist of regulatory targeted surplus level based on the relationship of statutory capital and surplus, with prescribed adjustments, to the sum of stated percentages of each element of a specified list of company risk exposures,
- the implementation of non-statutory guidelines and the circumstances under which dividends may be paid,
- product approvals,
- agent licensing,
- underwriting practices, and
- insurance and annuity sales practices.

For example, the NAIC has promulgated proposed changes to statutory accounting standards. These initiatives may be adopted by the various states in which we are licensed, but the ultimate content, timing and impact of any statutes and regulations adopted by the states cannot be determined at this time.

DIVIDENDS. We are a holding company whose assets include all of the outstanding shares of the common stock of Principal Life. As a holding company, we will depend on dividends from our subsidiaries. The Iowa insurance laws may restrict the ability of Principal Life to pay dividends to us. Our ability to pay dividends to our stockholders and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Life. Any inability of Principal Life to pay dividends to us in the future in an amount sufficient for us to pay dividends to our stockholders and meet our other obligations may materially adversely affect our business, financial condition or results of operations.

The payment of dividends to us by Principal Life is regulated under Iowa insurance laws. Under Iowa insurance laws, Principal Life may pay dividends only out of the earned profits arising from its business. Principal Life must seek regulatory approval prior to paying a shareholder dividend or distributing cash or other property whose fair market value, together with that of other shareholder dividends or distributions made within the preceding 12 month period, exceeds the greater of:

- 10% of Principal Life statutory surplus as of the previous calendar year end; or
- the net gain from operations of Principal Life determined on a statutory basis for the previous calendar year.

HOLDING COMPANY REGULATION

We and our insurance subsidiaries are subject to regulation under the insurance holding company laws of various jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require an insurer that is a subsidiary of an insurance holding company or the insurance holding company to register with state regulatory authorities and to file with those authorities reports, including information concerning capital structure, ownership, financial condition, intercompany transactions and general business operations, including transactions involving the transfer of assets, loans or payment of dividends between an insurer and its affiliates.

In addition, insurance regulators periodically examine an insurer's financial condition. Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or the restructuring of insurance companies. Insurance company subsidiaries of the holding company would be subject to such state insurance laws; however, the holding company would generally be subject to federal bankruptcy laws.

SURPLUS AND CAPITAL REQUIREMENTS

Insurance regulators have the discretionary authority, in connection with the ongoing licensing of our insurance subsidiaries, to limit or prohibit the ability to issue new policies if, in the regulators' judgment, the insurer is not maintaining a minimum amount of surplus or is in hazardous financial condition. Limits may also be established on the ability to issue new life insurance policies and annuity contracts above an amount based upon the face amount and premiums of policies of a similar type issued in the prior year. We do not believe that the current or anticipated levels of statutory surplus of Principal Life present a material risk that any such regulator would limit the amount of new insurance business Principal Life may issue. Statutory surplus is the excess of admitted assets over statutory liabilities, as shown on Principal Life's statutory financial statements.

RISK-BASED CAPITAL

The NAIC has established risk-based capital standards for life insurance companies as well as a model act to apply such standards at the state level. The model act provides that life insurance companies must submit an annual risk-based capital report to state regulators reporting their risk-based capital based on four categories of risk: asset risk, insurance risk, interest rate risk and business risk. For each category, the capital requirement is determined by applying factors to various asset, premium and reserve items, with the factor being higher for those items with greater underlying risk and lower for less risky items. The formula is intended to be used by insurance regulators as an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

If an insurer's total adjusted capital falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the level. These actions range from requiring the insurer to propose actions to correct the capital deficiency to placing the insurer under regulatory control. At March 31, 2001, Principal Life's total adjusted capital exceeded the level of risk-based capital that would require it to take any corrective action.

GUARANTY FUNDS

All fifty states of the United States, the District of Columbia and Puerto Rico have insurance laws requiring companies licensed to do life or health insurance business within those jurisdictions to participate as members of the state's life and health insurance guaranty associations. These associations are organized to pay contractual obligations under life and health insurance policies and annuity contracts issued by impaired or insolvent insurance companies. To meet these obligations, these associations levy assessments on all member insurers based on the proportionate share of the premiums written by each member in the lines of business in which the impaired or insolvent insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets, usually over a period of years. For the three months ended March 31, 2001, and the years ended December 31, 2000, 1999, and 1998, we paid $0.5 million, $0.1 million, $2.2 million, and $6.5 million, respectively, in assessments, net of returns, made under state guaranty association laws. While the amount of future assessments cannot be accurately predicted, we believe that assessments with respect to other pending insurance company impairments and insolvencies will not be material to our business, financial condition or results of operations.

STATUTORY INVESTMENT VALUATION RESERVES

Life insurance companies are required to establish an asset valuation reserve to stabilize statutory policyholder surplus from fluctuations in the market value of and/or realized gains or losses on bonds, stocks, mortgage loans, real estate and other invested assets, other than fluctuations captured by the INTEREST MAINTENANCE RESERVE. Although

classified as a reserve account, asset valuation reserve does not represent an obligation of the company. Asset valuation reserve has two components:

- a "default component," which provides for future credit-related losses on fixed maturity investments; and

- an "equity component," which provides for losses on all types of equity investments, including equity securities and real estate.

Asset valuation reserve generally captures all realized and unrealized gains or losses on invested assets, other than those resulting from changes in interest rates. Each year the amount of an insurer's asset valuation reserve will fluctuate as additional gains or losses are absorbed by the reserve. To adjust for such changes over time, an annual contribution must be made to the asset valuation reserve equal to a basic contribution plus 20% of the difference between the reserve objective and the actual asset valuation reserve. Insurers also are required to establish an Interest Maintenance Reserve for net realized capital gains and losses on fixed maturity securities, net of tax, related to changes in interest rates. The Interest Maintenance Reserve applies to all types of fixed maturity investments, including bonds, preferred stocks, mortgage-backed securities and mortgage loans. The Interest Maintenance Reserve is required to be amortized into statutory earnings on a basis reflecting the remaining period to maturity of the fixed maturity securities sold. These reserves are required by state insurance regulatory authorities to be established as a liability on a life insurer's statutory financial statements, but do not affect our financial statements prepared in accordance with GAAP. Although future additions to asset valuation reserve will reduce Principal Life's future statutory capital and surplus, we do not believe that the impact under current regulations of such reserve requirements will materially affect the ability of Principal Life to increase its statutory capital and surplus and pay future dividends to us.

NAIC INSURANCE REGULATORY INFORMATION SYSTEM RATIOS

The NAIC has developed a set of financial tests known as the Insurance Regulatory Information System for early identification of companies which may require special attention by insurance regulators. Insurance companies submit data on an annual basis to the NAIC. This data is used to calculate ratios covering various categories of financial data, with defined "usual ranges" for each category. The Insurance Regulatory Information System consists of 12 key financial ratios for life insurance companies. Departure from the usual range on four or more of the ratios may lead to inquiries from individual states' insurance departments. For the year ended December 31, 2000, Principal Life was within the "usual range" for all of the ratios.

REGULATION OF INVESTMENTS

Our insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios. Some of these laws and regulations also limit the amount of investments in specified investment categories, such as below investment grade fixed maturity securities, equity real estate, other equity investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus, in some instances, requiring divestiture. Non-admitted assets are assets or portions of those assets which are not permitted to be reported as admitted assets in an insurance company's Annual Statement. As a result, assets which normally would be accorded value in the financial statements of non-insurance companies are accorded no value and thus reduce the reported statutory policyholder surplus of the insurance company. State regulatory authorities from the domiciliary states of our insurance subsidiaries have not indicated any non-compliance with any such regulations.

VALUATION OF LIFE INSURANCE POLICIES MODEL REGULATION

The NAIC has adopted a revision to the Valuation of Life Insurance Policies Model Regulation (known as Revised XXX), which Iowa adopted effective January 1, 2000. This regulation establishes new minimum statutory reserve requirements for some individual life insurance policies written in the future. Under this regulation, companies selling specified individual life insurance products, such as term life insurance with guaranteed premium periods and universal life insurance products with no-lapse guarantees, are required to redesign their products or hold increased reserves to be consistent with the new minimum standards with respect to policies issued after the effective date of the regulation. Principal Life has taken action to either redesign or increase reserves with respect to these products, and we do not believe these actions will result in a material adverse effect on our business, financial condition or results of operations.

STATUTORY EXAMINATION

As part of their routine regulatory oversight process, state insurance departments conduct periodic detailed examinations of the books, records and accounts of insurers domiciled in their states. These examinations are generally conducted in cooperation with the departments of two or three other states under guidelines promulgated by the NAIC. On August 21, 2000, the Iowa insurance division completed an examination of Principal Life for the three-year period ended December 31, 1998. No material violations of law were found.

State insurance departments also periodically conduct market conduct examinations of the sales practices of insurance companies, including our life insurance subsidiaries. In recent years, a number of life and annuity insurers have been the subject of regulatory proceedings and litigation relating to alleged improper life insurance pricing and sales practices. Some of these insurers have incurred or paid substantial amounts in connection with the resolution of such matters. Regulatory authorities in a small number of states, including both insurance departments and attorneys general, have ongoing investigations of our sales of individual life insurance policies or annuities, including investigations of alleged improper replacement transactions and alleged improper sales of insurance with inaccurate or inadequate disclosures as to the period for which premiums would be payable.

REGULATION OF SAVINGS AND LOAN HOLDING COMPANY

Due to our indirect control of Principal Bank, a federal savings bank, we are a savings and loan holding company regulated by the Office of Thrift Supervision; however, since we control only one savings bank, our activities are not subject to all of the limitations on business activities otherwise applicable to savings and loan holding companies.

FEDERAL INSURANCE INITIATIVES

Although the Federal government generally does not directly regulate the insurance business, federal initiatives often have an impact on our business. Current and proposed measures that may significantly affect the insurance business generally include limitations on anti-trust immunity, minimum solvency requirements and health care reform.

Congressional committees have held hearings with respect to the optional federal chartering and regulation of insurance companies and agencies. Although no legislative bills have yet been introduced, there are currently proposals made by insurance and banking trade associations providing for uniform federal regulation of the insurance industry. We cannot predict what other proposals may be made in connection with the federal chartering, what legislation, if any, may be introduced or enacted and what the effect of any such legislation may have on us.

On November 21, 2000, the Department of Labor issued new regulations to create a rapid process for employees to appeal claims rejected by their health insurance plans. The new regulations apply to all claims filed on or after January 1, 2002.

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act of 1999, implementing fundamental changes in the regulation of the financial services industry in the United States. The act permits the transformation of the already converging banking, insurance and securities industries by permitting mergers that combine commercial banks, insurers and securities firms under one holding company. Under the act, national banks retain their existing ability to sell insurance products in some circumstances. In addition, bank holding companies that qualify and elect to be treated as "financial holding companies" may engage in activities, and acquire companies engaged in activities, that are "financial" in nature or "incidental" or "complementary" to such financial activities, including acting as principal, agent or broker in selling life, property and casualty and other forms of insurance, including annuities. A financial holding company can own any kind of insurance company or insurance broker or agent, but its bank subsidiary cannot own the insurance company. Under state law, the financial holding company would need to apply to the insurance commissioner in the insurer's state of domicile for prior approval of the acquisition of the insurer, and the act provides that the commissioner, in considering the application, may not discriminate against the financial holding company because it is affiliated with a bank. Under the act, no state may prevent or interfere with affiliations between banks and insurers, insurance agents or brokers, or the licensing of a bank or affiliate as an insurer or agent or broker.

Until passage of the Gramm-Leach-Bliley Act, the Glass-Steagall Act of 1933, had limited the ability of banks to engage in securities-related businesses, and the Bank Holding Company Act of 1956, had restricted banks from being affiliated with insurance companies. With the passage of the Gramm-Leach-Bliley Act, bank holding companies may acquire insurers, and insurance holding companies may acquire banks. The ability of banks to affiliate with insurance companies may materially adversely affect all of our product lines by substantially increasing the number, size and financial strength of potential competitors.

TAX LEGISLATION

Currently, the Internal Revenue Code provides favorable federal income tax treatment to holders of various types of life insurance and annuity products. For example, increases in the cash value of life insurance and annuity products are tax-deferred during the product's accumulation period and life insurance death benefits paid to the beneficiary after the insured's death are generally not subject to federal income taxation. Withdrawals from life insurance and annuity products also receive generally favorable tax treatment. In addition, interest, within limitations, on loans up to $50,000 secured by the cash value of life insurance policies owned by businesses on key employees is eligible for deduction even though investment earnings during the accumulation period are tax-deferred.

In the past, legislation has been proposed that would have curtailed the tax-favored treatment of some of Principal Life's insurance and annuity products. In May 2001, Congress passed legislation that would lower individual tax rates. If

these or similar proposals directed at limiting the tax-favored treatment of life insurance policies or annuity contracts were enacted, market demand for such products would be adversely affected. Repeal of the federal estate tax is an important component of President Bush's plan for tax relief. In May 2001, Congress passed legislation that would increase the size of estates exempt from taxation and phase in tax rate reductions between 2003 and 2009 and eliminate the federal estate tax entirely in 2010. Under the legislation, the estate tax would be reinstated, without the increased exemption or reduced rate, in 2011 and thereafter. President Bush supports this proposal. Many insurance products are designed and sold to help policyholders reduce the effect of federal estate taxation on their estates. Thus, the enactment of any legislation that eliminates or significantly reduces federal estate taxation would likely result in a significant reduction in sales of our products.

SECURITIES LAWS

Our investment advisory activities are subject to federal and state securities laws and regulations. Our mutual funds are registered under the Investment Company Act of 1940. The shares issued by the mutual funds are registered under the Securities Act. Additionally, two of our separate investment accounts fund variable annuity contracts and variable life insurance policies we issue are registered under the Investment Company Act. Some of the variable annuity contracts and variable life insurance policies we issue are registered under the Securities Act. Two of our subsidiaries are registered as broker/dealers under the Exchange Act, and are members of the National Association of Securities Dealers, Inc. A number of our subsidiaries are registered as investment advisers under the Investment Advisers Act of 1940. We are also subject to similar laws and regulations in the states and foreign countries in which we provide investment advisory services, offer the products described above or non-variable life and annuity products or conduct other securities and investment related activities.

PRIVACY OF CUSTOMER INFORMATION

Federal law and regulation requires financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal and state laws also regulate disclosures of customer information. Congress and state legislatures are expected to consider additional regulation relating to privacy and other aspects of customer information.

ENVIRONMENTAL CONSIDERATIONS

As owner and operator of real property, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. When deemed appropriate, we routinely conduct environmental assessments for real estate being acquired for investment and before taking title to property acquired through foreclosure or deed in lieu of foreclosure. Based on these environmental assessments and compliance with our internal environmental procedures, we believe that any costs associated with compliance with environmental laws and regulations or any remediation of such properties would not be material to our consolidated financial position. Furthermore, although we hold equity positions in subsidiaries and investments that could potentially be subject to environmental liabilities, we believe that we would not be subject to any environmental liabilities with respect to these investments which would have a material adverse effect on our business, financial position or results of operations.

ERISA CONSIDERATIONS

We engage in several lines of business, including our management of employee benefit plan assets held in our separate accounts that are subject to the requirements of ERISA. The Small Business Job Protection Act offered insurers some protection from potential litigation exposure prompted by the 1993 U.S. Supreme Court decision in John Hancock Mutual Life Insurance Company v. Harris Trust & Savings Bank. In Harris Trust, the Court held that, with respect to a portion of the funds held under general account group annuity contracts, an insurer is subject to the fiduciary requirements of ERISA under some circumstances. The pertinent provisions of the Small Business Job Protection Act provide that insurers are protected from liability for prohibited transactions and for breaches of fiduciary duties under ERISA for past actions with respect to their general account contracts. However, insurers remain subject to federal criminal law and liable for actions brought by the U.S. Secretary of Labor alleging breaches of fiduciary duties that also constitute a violation of federal or state criminal law.

The Small Business Job Protection Act also provides that contracts issued from an insurer's general account on or before December 31, 1998, that are not guaranteed benefit policies, will not subject an insurer's general account to ERISA's fiduciary requirements if they meet the requirements of regulations to be issued by the United States Department of Labor. Contracts issued from an insurer's general account after December 31, 1998, that are not guaranteed benefit policies will potentially subject the insurer's general account to ERISA. On January 5, 2000, the Department of Labor published regulations under the Small Business Job Protection Act which provide, among other things, that if an employee benefit plan acquired an insurance policy, other than a guaranteed benefit policy, issued on

or before December 31, 1998 that is supported by the assets of the insurer's general account, the plan's assets for purposes of ERISA will not be deemed to include any of the assets of the insurer's general account, provided that the requirements of the regulation are met. Accordingly, if those requirements are met, the insurer would not be subject to the fiduciary obligations of ERISA as a result of issuing such an insurance policy. These requirements include detailed disclosures to be made to the employee benefit plan and the requirement that the insurer must permit the policyholder to terminate the policy on 90 days' notice and receive without penalty, at the policyholder's option, either: (1) the accumulated fund balance, which may be subject to market value adjustment, or (2) a book value payment of such amount in annual installments with interest. In the event we elect to comply with the requirements to secure the exemption provided by the regulations from the fiduciary obligations of ERISA, our exposure to disintermediation risk could increase due to the termination options that we would be required to provide to policyholders. Since there has been no final ruling in the Harris Trust litigation regarding whether John Hancock Mutual Life Insurance Company violated ERISA, we are unable at this time to determine the effects of the decision. In the absence of relief under the regulations, the Harris Trust decision could substantially increase administrative costs, may require the segregation of assets currently in the general account, result in potential liability arising from the application of ERISA's fiduciary rules to our general account or adversely affect future business.

With respect to employee welfare benefit plans subject to ERISA, the Congress periodically has considered amendments to the law's federal preemption provision, which would expose us, and the insurance industry generally, to state law causes of action, and accompanying extra-contractual damages, such as punitive damages, in lawsuits involving, for example, group life and group disability claims. To date, all such amendments to ERISA have been defeated.

INTERNATIONAL OPERATIONS

BT FINANCIAL GROUP

The Australian Securities and Investments Commission is the primary regulator of the Australian securities industry. The Australian Prudential Regulatory Authority is primarily responsible for the regulation of superannuation and life insurance product providers.

A number of BT Financial Group companies hold securities licenses. Several BT Financial Group companies have been approved by the Australian Prudential Regulatory Authority to act as trustees for superannuation products. BT Tactical Asset Management Pty Limited holds a futures brokers license and is a member of the Sydney Futures Exchange. BT Life Limited is registered as a life company under the Life Insurance Act. BT Securities Limited is registered as a financial corporation under the Financial Corporations Act. BT Financial Group companies are also subject to various regulations in foreign jurisdictions in which they operate.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Bank Committee on Banking Regulation and Supervisory Practices (Bank for International Settlements).

PRINCIPAL INTERNATIONAL

Principal International operates in a number of countries around the world. The degree of regulation and supervision of our businesses varies from minimal in some countries to stringent in others.

Generally, we and those of our subsidiaries conducting business internationally must obtain licenses from local authorities and satisfy local regulatory requirements. The licenses local authorities issue to us and our subsidiaries are subject to modification and revocation by such authorities and, thus, we and our subsidiaries could be prevented from conducting business in jurisdictions where we currently operate.

Local authorities also regulate our international asset accumulation operations by imposing requirements relating to currency, policy language and terms, amount and type of security deposits, amount and type of reserves, amount and type of local investment and the share of profits that must be returned to policyholders on participating policies. Some local authorities regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the state, to which admitted insurers are obligated to cede portion of their business on terms which do not always allow foreign insurers, including us, for compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

ARGENTINA. In Argentina, the National Insurance Superintendence regulates our insurance and annuity operations, including by restricting the types of entities that may engage in the insurance business. The National Insurance Superintendence, at its sole discretion, may award or reject authorizations for the formation of a new insurance company and requires notice of any transfers of shares of previously authorized insurance companies. Insurance companies are subject to reporting requirements which mandate the filing of, among other things, copies of resolutions passed at shareholders' meetings, financial statements and statistical information relating to the types of insurance sold and geographical distribution of such sales.

BRAZIL. The National Council of Private Insurance is responsible for adopting policies, rules and regulations governing private pension companies in Brazil. The Superintendent of Private Insurance is responsible for the audit/review of the activities of private pension companies, including accounting, actuarial and statistical audits/reviews, and for authorizing the establishment and operations of these companies. All products sold by private pension companies must be approved by the Superintendent of Private Insurance. Our private pension company, BrasilPrev Previdencia Privada S.A., has been authorized to operate through a license granted by the Superintendent of Private Insurance, as well as previous authorization from the Superintendent of Private Insurance to administer all the products that BrasilPrev currently sells.

CHILE. The Superintendent of Securities and Insurance is the regulator responsible for supervising all insurance company activities in Chile. The investments of insurance companies are highly regulated. The Superintendent of Securities and Insurance has established limits with respect to equity and leverage ratios for insurance company investments. Compliance with these limits is regularly monitored.

HONG KONG. As a long term life insurance provider, Principal Insurance Company (Hong Kong) Limited is regulated by the Hong Kong Insurance Authority and its investment products are regulated by the Hong Kong Securities & Futures Commission, which is also responsible for overseeing its pension operations. The Insurance Authority requires that, so long as Principal Insurance Company (Asia) Limited holds an insurance license, it must maintain a minimum capital of HK$300 million and a solvency margin in respect of each particular product it is underwriting. Mandatory Provident Fund Schemes must be under a trust. As such, Principal Trust Company (Asia) Limited, the trustee of all Mandatory Provident Fund Schemes, along with the delegated administrator Principal Insurance Company (Hong Kong) Limited and its investment manager Principal Asset Management Company (Asia) Limited, are regulated by the Mandatory Provident Fund Schemes Authority.

INDIA. In India, the Securities and Exchange Board of India supervises the registration, regulation and working of collective investment schemes including mutual funds. Indian law governs the structure of a mutual fund, the rights, duties and obligations of sponsors, the trustees, the asset management company, the custodian, the registrar, investment guidelines/limits and valuation policies, advertisement and marketing code, accounting policies and standards, code of conduct and disclosure requirements.

MEXICO. The Ministry of Treasury is responsible for oversight of the insurance industry in Mexico, but it is handled through the National Insurance and Bonding Commission. All claims against insurance companies are handled through the National Commission for the Rights of the Financial Services Users.

The National Commission for the Retirement Savings System supervises the private pension fund managers who administer Mexico's pension system, and the pension funds, they manage. As of March 31, 2001, each pension fund manager must keep an initial minimum capital requirement of $2.5 million in reserve in order to operate and each private pension fund must have initial capital of $450,000. In order to prevent any pension fund manager from gaining control of the market, no pension fund manager is permitted to manage assets for more than 17 percent of the number of individuals in the mandatory privatized social security system in the first four years after the public pension system begins. Thereafter, a pension fund manager's market share is limited to 20 percent.

OWNERSHIP OF COMMON STOCK

The following table presents selected information regarding the beneficial ownership of our common stock as of the effective date of the demutualization by:

(1) each of our directors and named executive officers; and

(2) all of our directors and executive officers as a group.

The number of shares of our common stock beneficially owned by each director and executive officer and all directors and executive officers as a group is based upon the number of shares that we estimate each director and executive officer, and persons and entities affiliated with each director and executive officer, will receive in their capacity as policyholders entitled to receive compensation in the demutualization. Except as otherwise indicated below, each of the persons named in the table will have sole voting and investment power with respect to the shares beneficially owned by such person as indicated opposite such person's name.

NAME	NUMBER OF SHARES TO BE BENEFICIALLY OWNED(1)
David J. Drury	*
J. Barry Griswell	*
Betsy J. Bernard	*
Jocelyn Carter-Miller	*
Daniel Gelatt	*
Sandra L. Helton	*
Charles S. Johnson	*
William T. Kerr	*
Lee Liu	*
Victor H. Loewenstein	*
Ronald D. Pearson	*
Federico F. Pena	*
Donald M. Stewart	*
Elizabeth B. Tallett	*
John E. Aschenbrenner	*
Michael T. Daley	*
Dennis P. Francis	*
Michael H. Gersie	*
Ellen Z. Lamale	*
Mary A. O'Keefe	*
Richard L. Prey	*
Karen E. Shaff	*
Norman R. Sorensen	*
Carl C. Williams	*
All directors and executive officers as a group (24 persons)	*

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* Less than 1% of the number of shares of our common stock expected to be outstanding on the effective date of the demutualization.

(1) Based on an estimated allocation of shares based upon policy ownership records as of March 31, 2000.

We believe no person will beneficially own more than 5% of our outstanding shares of common stock as of the effective date of the demutualization.

DESCRIPTION OF CAPITAL STOCK AND CHANGE OF CONTROL RELATED PROVISIONS

The authorized capital stock of Principal Financial Group, Inc. consists of 2.5 billion shares of common stock and 500 million shares of preferred stock.

COMMON STOCK

Holders of common stock are entitled to receive such dividends as may from time to time be declared by our board of directors out of funds legally available for the payment of such dividends. See "Stockholder Dividend Policy". Holders of common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote and do not have any cumulative voting rights. Holders of common stock have no preemptive, conversion, redemption or sinking fund rights. In the event of a liquidation, dissolution or winding up of Principal Financial Group, Inc., holders of common stock are entitled to share equally and ratably in the assets of Principal Financial Group, Inc., if any, remaining after the payment of all liabilities of Principal Financial Group, Inc. and the liquidation preference of any outstanding class or series of preferred stock. The outstanding shares of common stock are, and the shares of common stock offered by Principal Financial Group, Inc. in this offering, when issued, will be, fully paid and nonassessable. The rights and privileges of holders of common stock are subject to any series of preferred stock that Principal Financial Group, Inc. may issue in the future, as described below.

PREFERRED STOCK

Our board of directors has the authority to issue preferred stock in one or more series and to fix the number of shares constituting any such series and the voting rights, designations, preferences and qualifications, limitations and restrictions of the shares constituting any series, without any further vote or action by our stockholders. The issuance of preferred stock by our board of directors could adversely affect the rights of holders of common stock.

We will authorize shares of Series A Junior Participating Preferred Stock in connection with our stockholder rights plan. See "-- Stockholder Rights Plan".

CHANGE OF CONTROL RELATED PROVISIONS IN OUR CERTIFICATE OF INCORPORATION AND BY-LAWS, AND DELAWARE LAW

A number of provisions of our certificate of incorporation and by-laws deal with matters of corporate governance and rights of stockholders. The following discussion is a general summary of selected provisions of our certificate of incorporation and by-laws and regulatory provisions that might be deemed to have a potential antitakeover effect. See "Risk Factors -- Applicable laws and our stockholder rights plan, certificate of incorporation and by-laws may discourage takeovers and business combinations that our stockholders might consider in their best interests". These provisions may have the effect of discouraging a future takeover attempt which is not approved by our board of directors but which individual stockholders may deem to be in their best interests or in which stockholders may receive a substantial premium for their shares over then current market prices. As a result, stockholders who might desire to participate in such a transaction may not have an opportunity to do so. Such provisions will also render the removal of the incumbent board of directors or management more difficult. Some provisions of the Delaware General Corporation Law and the Iowa Insurance Law may also have an antitakeover effect. The following description of selected provisions of our certificate of incorporation and bylaws and selected provisions of the Delaware General Corporation Law and the Iowa Insurance Law are necessarily general and reference should be made in each case to our certificate of incorporation and by-laws, which are filed as exhibits to our registration statement, and to the provisions of those laws. See "Additional Information" for information on where to obtain a copy of our certificate of incorporation and by-laws.

UNISSUED SHARES OF CAPITAL STOCK

COMMON STOCK. Based upon the assumptions described under "Unaudited Pro Forma Condensed Consolidated Financial Information," we currently plan to issue an estimated 370.0 million shares of our authorized common stock in this offering and the demutualization. The remaining shares of authorized and unissued common stock will be available for future issuance without additional stockholder approval. While the additional shares are not designed to deter or prevent a change of control, under some circumstances we could use the additional shares to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control by, for example, issuing those shares in private placements to purchasers who might side with our board of directors in opposing a hostile takeover bid.

PREFERRED STOCK. Our board of directors has the authority to issue preferred stock in one or more series and to fix the number of shares constituting any such series and the preferences, limitations and relative rights, including dividend rights, dividend rate, voting rights, terms of redemption, redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series, without any further vote or action by our stockholders. The existence of authorized but unissued preferred stock could reduce our attractiveness as a target for an unsolicited takeover bid since we could, for example, issue shares of preferred stock to parties who might oppose such a takeover bid or shares that contain terms the potential acquiror may find unattractive. This may have the effect of delaying or

preventing a change in control, may discourage bids for the common stock at a premium over the market price of the common stock, and may adversely affect the market price of, and the voting and other rights of the holders of, common stock.

CLASSIFIED BOARD OF DIRECTORS AND REMOVAL OF DIRECTORS. Our certificate of incorporation provides that the directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of each class to be three years. The classes serve staggered terms, such that the term of one class of directors expires each year. Any effort to obtain control of our board of directors by causing the election of a majority of the board of directors may require more time than would be required without a staggered election structure. Our certificate of incorporation also provides that directors may be removed only for cause at a meeting of stockholders by a vote of a majority of the shares then entitled to vote. This provision may have the effect of slowing or impeding a change in membership of our board of directors that would effect a change of control.

RESTRICTION ON MAXIMUM NUMBER OF DIRECTORS AND FILLING OF VACANCIES ON OUR BOARD OF DIRECTORS. Our by-laws provide that the number of directors shall be fixed and increased or decreased from time to time by resolution of the board of directors, but the board of directors shall at no time consist of fewer than three directors. Stockholders can only remove a director for cause by a vote of a majority of the shares entitled to vote, in which case the vacancy caused by such removal may be filled at such meeting by the stockholders entitled to vote for the election of the director so removed. Any vacancy on the board of directors, including a vacancy resulting from an increase in the number of directors or resulting from a removal for cause where the stockholders have not filled the vacancy, may be filled by a majority of the directors then in office, although less than a quorum. If the vacancy is not so filled, it shall be filled by the stockholders at the next annual meeting of stockholders. The stockholders are not permitted to fill vacancies between annual meetings except where the vacancy resulted from a removal for cause. These provisions give incumbent directors significant authority that may have the effect of limiting the ability of stockholders to effect a change in management.

ADVANCE NOTICE REQUIREMENTS FOR NOMINATION OF DIRECTORS AND PRESENTATION OF NEW BUSINESS AT MEETINGS OF STOCKHOLDERS; ACTION BY WRITTEN CONSENT. Our by-laws provide for advance notice requirements for stockholder proposals and nominations for director. In addition, under the provisions of both our certificate of incorporation and by-laws, action may not be taken by written consent of stockholders; rather, any action taken by the stockholders must be effected at a duly called meeting. The chief executive officer, or, under some circumstances, the president or any vice president, and the board of directors may call a special meeting. These provisions make it more procedurally difficult for a stockholder to place a proposal or nomination on the meeting agenda or to take action without a meeting, and therefore may reduce the likelihood that a stockholder will seek to take independent action to replace directors or seek a stockholder vote with respect to other matters that are not supported by management.

LIMITATIONS ON DIRECTOR LIABILITY

Our certificate of incorporation contains a provision that is designed to limit our directors' liability. Specifically, directors will not be held liable to Principal Financial Group, Inc. for monetary damages for breach of their fiduciary duty as a director, except to the extent that this limitation on or exemption from liability is not permitted by the Delaware General Corporation Law and any amendments to that law.

The principal effect of the limitation on liability provision is that a stockholder is unable to prosecute an action for monetary damages against a director of Principal Financial Group, Inc. unless the stockholder can demonstrate a basis for liability for which indemnification is not available under the Delaware General Corporation Law. This provision, however, does not eliminate or limit director liability arising in connection with causes of action brought under the federal securities laws. Our certificate of incorporation does not eliminate our directors' duty of care. The inclusion of this provision in our certificate of incorporation may, however, discourage or deter stockholders or management from bringing a lawsuit against directors for a breach of their fiduciary duties, even though such an action, if successful, might otherwise have benefited Principal Financial Group, Inc. and our stockholders. This provision should not affect the availability of equitable remedies such as injunction or rescission based upon a director's breach of the duty of care.

Our by-laws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. We are required to indemnify our directors and officers for all judgments, fines, settlements, legal fees and other expenses incurred in connection with pending or threatened legal proceedings because of the director's or officer's position with Principal Financial Group, Inc. or another entity that the director or officer serves at our request, subject to various conditions, and to advance funds to our directors and officers to enable them to defend against such proceedings. To receive indemnification, the director or officer must have been successful in the legal proceeding or have acted in good faith and in what was reasonably believed to be a lawful manner in the best interest of Principal Financial Group, Inc.

SUPERMAJORITY VOTING REQUIREMENT FOR AMENDMENT OF CERTAIN PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND BY-LAWS. The provisions of our certificate of incorporation governing, among other things the classified board, the director's discretion in determining what he or she reasonably believes to be in the best interests of Principal Financial

Group, Inc., the liability of directors and the elimination of stockholder actions by written consent may not be amended, altered or repealed unless the amendment is approved by the vote of holders of three/fourths of the shares then entitled to vote at an election of directors. This requirement exceeds the majority vote of the outstanding stock that would otherwise be required by the Delaware General Corporation Law for the repeal or amendment of such provisions of the certificate of incorporation. Our by-laws may be amended by the board of directors or by the vote of holders of three/fourths of the shares then entitled to vote. These provisions make it more difficult for any person to remove or amend any provisions that have an antitakeover effect.

BUSINESS COMBINATION STATUTE. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law, unless we elect in our certificate of incorporation not to be governed by the provisions of Section 203. We have not made that election. Section 203 can affect the ability of an "interested stockholder" of Principal Financial Group, Inc. to engage in business combinations, such as mergers, consolidations or acquisitions of additional shares of Principal Financial Group, Inc., for a period of three years following the time that the stockholder becomes an "interested stockholder." An "interested stockholder" is defined to include persons owning directly or indirectly 15% or more of the outstanding voting stock of a corporation. The provisions of Section 203 are not applicable in some circumstances, including those in which (a) the business combination or transaction which results in the stockholder becoming an "interested stockholder" is approved by the corporation's board of directors prior to the time the stockholder becomes an "interested stockholder" or (b) the "interested stockholder," upon consummation of such transaction, owns at least 85% of the voting stock of the corporation outstanding prior to such transaction.

LIMITATIONS ON ACQUISITIONS OF SECURITIES

Iowa law prohibits for a period of 5 years following the date of distribution of consideration to the policyholders in exchange for their membership interests:

- any person, other than the reorganized company, or other than an employee benefit plan or employee benefit trust sponsored by the reorganized company from, directly or indirectly, acquiring or offering to acquire the beneficial ownership of more than 5% of any class of voting security of the reorganized company, and

- any person, other than the reorganized company, or other than an employee benefit plan or employee benefit trust sponsored by the reorganized company, who acquires 5% or more of any class of voting security of the reorganized company prior to the conversion from, directly or indirectly, acquiring or offering to acquire the beneficial ownership of additional voting securities of the reorganized company,

unless the acquisition is approved by the Insurance Commissioner of the State of Iowa and by the board of directors of the reorganized company.

By virtue of these provisions, we may not be subject to an acquisition by another company during the 5 years following the distribution of consideration to Principal Life's policyholders entitled to receive compensation in the demutualization.

The insurance holding company and other insurance laws of many states also regulate changes of control of insurance holding companies, such as Principal Financial Group, Inc. A change of control is generally presumed upon acquisitions of 10% or more of voting securities. The Iowa, Arizona and Vermont insurance holding company laws, which we expect to be applicable to us following the demutualization, require filings in connection with proposed acquisitions of control of domestic insurance companies. These insurance holding company laws prohibit a person from acquiring direct or indirect control of an insurer incorporated in the relevant jurisdiction without prior insurance regulatory approval.

STOCKHOLDER RIGHTS PLAN

Our board of directors has adopted a stockholder rights plan under which each outstanding share of our common stock issued between the date on which Principal Financial Group, Inc. enters into the underwriting agreement for the initial public offering and the distribution date (as described below) will be coupled with a stockholder right. Initially, the stockholder rights will be attached to the certificates representing outstanding shares of common stock, and no separate rights certificates will be distributed. Each right will entitle the holder to purchase one one-thousandth of a share of our Series A Junior Participating Preferred Stock. Each one one-thousandth of a share of Series A Junior Participating Preferred Stock will have economic and voting terms equivalent to one share of Principal Financial Group, Inc.'s common stock. Until it is exercised, the right itself will not entitle the holder of the right to any rights as a stockholder, including the right to receive dividends or to vote at stockholder meetings. The description and terms of the rights are found in a rights agreement entered into between Principal Financial Group, Inc. and Mellon Investor Services, L.L.C., as rights agent. Although the material provisions of the rights agreement have been accurately summarized, the statements below concerning the rights agreement are not necessarily complete, and in each instance reference is made to the form of rights agreement itself, a copy of which has been filed as an exhibit to the

Registration Statement of which this prospectus forms a part. Each statement is qualified in its entirety by such reference.

Stockholder rights are not exercisable until the distribution date and will expire at the close of business on the tenth anniversary of the date on which the initial public offering price is determined, unless earlier redeemed or exchanged by us. A distribution date would occur upon the earlier of:

- the tenth day after the first public announcement or communication to us that a person or group of affiliated or associated persons (referred to as an acquiring person) has acquired beneficial ownership of 10% or more of our outstanding common stock (the date of such announcement or communication is referred to as the stock acquisition time); or

- the tenth business day after the commencement or announcement of the intention to commence a tender offer or exchange offer that would result in a person or group becoming an acquiring person.

If any person becomes an acquiring person, each holder of a stockholder right will be entitled to exercise the right and receive, instead of Series A Junior Participating Preferred Stock, common stock or, in some circumstances, cash, a reduction in purchase price, property or other securities of Principal Financial Group, Inc., having a value equal to two times the purchase price of the stockholder right. All stockholder rights that are beneficially owned by an acquiring person or its transferee will become null and void.

If at any time after a public announcement has been made or Principal Financial Group, Inc. has received notice that a person has become an acquiring person:

- Principal Financial Group, Inc. is acquired in a merger or other business combination, or

- 50% or more of Principal Financial Group, Inc.'s assets, cash flow or earning power is sold or transferred,

each holder of a stockholder right, except rights which previously have been voided as described above, will have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the purchase price of the right.

The purchase price payable, the number of one one-thousandth of a share of Series A Junior Participating Preferred Stock or other securities or property issuable upon exercise of stockholder rights and the number of such rights outstanding, are subject to adjustment from time to time to prevent dilution. Except as provided in the rights agreements, no adjustment in the purchase price or the number of shares of Series A Junior Participating Preferred Stock issuable upon exercise of a stockholder right will be required until the cumulative adjustment would require an increase or decrease of at least one percent in the purchase price or number of shares for which a right is exercisable.

At any time until the earlier of (1) the stock acquisition time or (2) the final expiration date of the rights agreement, we may redeem all the stockholder rights at a price of $0.001 per right. At any time after a person has become an acquiring person and prior to the acquisition by such person of 50% or more of the outstanding shares of our common stock, we may exchange the stockholder rights, in whole or in part, at an exchange ratio of one share of common stock, or one one-thousandth of a share of Series A Junior Participating Preferred Stock or of a share of a class or series of preferred stock having equivalent rights, preferences and privileges, per right.

The stockholder rights plan is designed to protect stockholders in the event of unsolicited offers to acquire Principal Financial Group, Inc. and other coercive takeover tactics which, in the opinion of the company's board of directors, could impair its ability to represent stockholder interests. The provisions of the stockholder rights plan may render an unsolicited takeover more difficult or less likely to occur or may prevent such a takeover, even though such takeover may offer our stockholders the opportunity to sell their stock at a price above the prevailing market rate and may be favored by a majority of our stockholders.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock and our Series A Junior Participating Preferred Stock is Mellon Investor Services, L.L.C.

COMMON STOCK ELIGIBLE FOR FUTURE SALE

Substantially all of the estimated 260.5 million shares of our common stock distributed to policyholders entitled to receive compensation in the demutualization or to the separate account to be established for the Separate Account Policy Credits will be eligible for resale in the public market without restriction. However, eligible policyholders will receive a written confirmation of their share ownership or Separate Account Policy Credits within 75 days from the closing of this offering, unless the Insurance Commissioner of the State of Iowa approves a later date. Until they receive the written confirmation, they will effectively be precluded from selling shares or the shares underlying their Separate Account Policy Credits because they will not know how many shares or Separate Account Policy Credits they will receive.

We estimate that these 260.5 million shares will equal approximately 70% of our outstanding common stock after the offering. See "The Demutualization." We have been advised by counsel that the distribution of shares to policyholders in the demutualization or to the separate account to be established for the Separate Account Policy Credits will be exempt from registration under the Securities Act by virtue of the exemption provided by Section 3(a)(10) of the Securities Act, and policyholders entitled to receive compensation in the demutualization who are not our "affiliates" within the meaning of Rule 144 under the Securities Act will be able to resell their shares, or to direct the sale of shares underlying Separate Account Policy Credits, immediately in the public market without registration or compliance with the time, volume, manner of sale and other limitations in Rule 144.

In addition, in accordance with the plan of conversion, in the event there are policyholders entitled to receive compensation in the demutualization who receive 99 or fewer shares of our common stock, we must, for a three-month period commencing no sooner than the first business day after the six-month anniversary, and no later than the first business day after the twelve-month anniversary, of the date of the closing of this offering, provide for the public sale, at prevailing market prices and without brokerage commissions or similar fees to stockholders, of all shares of our common stock held by policyholders entitled to receive compensation in the demutualization who receive 99 or fewer shares of our common stock. The commission-free sales program may be extended by us with the approval of the Insurance Commissioner of the State of Iowa. We would also, simultaneously and in conjunction with the commission-free sales program, offer to each such stockholder entitled to participate in the commission-free sales program the opportunity to purchase that number of shares of our common stock necessary to increase such stockholder's holdings to 100 shares without paying brokerage commissions or other similar expenses.

No prediction can be made as to the effect, if any, such future sales of shares, or the availability of shares for such future sales, will have on the market price of our common stock prevailing from time to time. The sale of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could harm prevailing market prices for our common stock. See "Risk Factors -- Sales of shares distributed in the demutualization may reduce the market price of our common stock".

UNDERWRITING

Principal Financial Group, Inc. and the underwriters for the U.S. offering named below, referred to as the U.S. underwriters, have entered into an underwriting agreement with respect to the shares offered in the United States. Subject to certain conditions, each U.S. underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and are the representatives of the U.S. underwriters.

Underwriters	Number of Shares
Goldman, Sachs & Co.	
Total.....	

If the U.S. underwriters sell more shares than the total number listed in the table above, the U.S. underwriters have an option to buy up to an additional shares from Principal Financial Group to cover such sales. They may exercise that option for 30 days. If any shares are purchased under this option, the U.S. underwriters will severally purchase shares in approximately the same proportion as shown in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the U.S. underwriters by Principal Financial Group, Inc. Such amounts are shown assuming both no exercise and full exercise of the U.S. underwriters' option to purchase additional shares.

Paid by Principal Financial Group, Inc.

	No Exercise	Full Exercise
Per Share.....	$	$
Total.....	$	$

Shares sold by the U.S. underwriters to the public will initially be offered at the initial public offering price provided on the cover of this prospectus. Any shares sold by the U.S. underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the U.S. underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial offering price, the representatives may change the offering price and the other selling terms.

Principal Financial Group, Inc. has entered into an underwriting agreement with the underwriters for the sale of shares outside of the United States. The terms and conditions of both offerings are the same and the sale of shares in both offerings are conditioned on each other. Goldman Sachs International and are representatives of the underwriters for the international offering outside the United States, referred to as the international underwriters. Principal Financial Group, Inc. has granted the international underwriters a similar option to purchase up to an aggregate of an additional shares.

The underwriters for both of the offerings will enter into an agreement in which they will agree to restrictions on where and to whom they and any dealer purchasing from them may offer shares as a part of the distribution of the shares. The underwriters will also agree that they may sell shares among each of the underwriting groups.

Principal Financial Group, Inc. has agreed with the underwriters not to dispose of or hedge any shares of common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representatives. This restriction does not apply to . See "Common Stock Eligible for Future Sale" for a discussion of transfer restrictions.

Prior to the offering, there has been no public market for the shares. The initial public offering price has been negotiated among us and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be the historical performance of Principal Financial Group, Inc., estimates of its business potential and earnings prospects, an assessment of its management and the consideration of the above factors in relation to market valuation of companies in related businesses.

Application will be made to list the common stock of Principal Financial Group, Inc. on the New York Stock Exchange under the symbol "PFG".

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created

by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the common stock, and together with the imposition of the penalty bid may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

Principal Financial Group, Inc. estimates that its share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $.

Principal Financial Group, Inc. and Principal Life Insurance Company have agreed to, jointly and severally, indemnify the several underwriters against liabilities, including liabilities under the Securities Act of 1933.

The underwriters and their affiliates have in the past provided, and may in the future from time to time provide, investment banking and general financing and banking services to Principal Financial Group and its affiliates for which they have in the past received, and may in the future receive, customary fees.

VALIDITY OF COMMON STOCK

The validity of the shares of our common stock offered hereby will be passed upon for Principal Financial Group, Inc. by Debevoise & Plimpton, New York, New York and for the underwriters by LeBoeuf, Lamb, Greene & MacRae, L.L.P., a limited liability partnership including professional corporations, New York, New York. LeBoeuf, Lamb, Greene, & MacRae, L.L.P. has in the past performed, and continues to perform, legal services for us and our affiliates.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements at December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, as described in their report. We have included our consolidated financial statements in this prospectus and in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Daniel J. McCarthy, F.S.A., a consulting actuary associated with Milliman & Robertson, Inc., has rendered an opinion, dated March 31, 2001, to our board of directors. See "The Demutualization -- Actuarial Opinion." This opinion is included as Annex A of this prospectus. This opinion is included in reliance upon the authority of such actuary as an expert in actuarial matters generally and in the application of actuarial concepts to insurance matters.

ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission in Washington, D.C., a registration statement on Form S-1 under the Securities Act with respect to the common stock offered by this prospectus. This prospectus which forms a part of the registration statement does not contain all the information found in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the Securities and Exchange Commission. For further information with respect to Principal Financial Group, Inc. and our common stock, we refer you to the registration statement. Statements made in this prospectus describing the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the registration statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement is qualified in its entirety by such reference. The registration statement may be inspected and copied at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site, http://www.sec.gov that contains periodic and current reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission.

As a result of the offering we will become subject to the information reporting requirements of the Securities Exchange Act of 1934. We will fulfill our obligations with respect to such requirements by filing periodic and current reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and information may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission referenced above. We intend to furnish holders of our common stock with annual reports that include our annual consolidated financial statements audited by an independent certified public accounting firm and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

We intend to list our common stock on the New York Stock Exchange. Upon such listing, copies of the registration statement, including all exhibits to the registration statement, and periodic reports, proxy statements and other information will be available for inspection at the offices of the New York Stock Exchange, Inc. located at 20 Broad Street, New York, New York 10005.

GLOSSARY

The following Glossary includes definitions of terms which are unique to this offering. Each term defined in this Glossary is printed in boldface the first time it appears in this prospectus.

Account Value Policy Credits	Policy credits, in the form of an increase in the value of the applicable group annuity contract, issued to a Qualified Plan Customer or a Non-Rule 180 Qualified Plan Customer. The increase in value will be allocated to participants' accounts, where appropriate, based on account balances for which records are kept by Principal Life Insurance Company unless the Qualified Plan Customer or Non-Rule 180 Qualified Plan Customer directs otherwise.
Closed Block	A mechanism established by Principal Life Insurance Company for the benefit of the participating policies and contracts included in the Closed Block, in connection with its reorganization to the mutual insurance holding company structure effective July 1, 1998. Assets of Principal Life Insurance Company were allocated to the Closed Block in an amount that produces cash flows which, together with anticipated revenue from the Closed Block policies and contracts, are expected to be sufficient to support the Closed Block policies and contracts including, but not limited to, provisions for payment of claims and certain expenses and taxes, and to provide for continuation of policy and contract dividends in aggregate in accordance with the 1997 dividend scales if the experience underlying those scales continues, and to allow for appropriate adjustments in those scales if such experience changes.
Interest Maintenance Reserve	The reserve required by insurance regulators to capture non-credit, interest-related realized capital gains and losses (net of taxes) on fixed income investments (primarily bonds and mortgage loans), which are amortized into net income over the estimated otherwise remaining periods to maturity of the investments sold. The Interest Maintenance Reserve has no effect on financial statements prepared in conformity with GAAP.
Mandatory Policy Credits	Policy credits issued to holders of policies required to receive policy credits under the plan of conversion. Mandatory Policy Credits may take the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the policy.
NAIC Designations	Evaluation made by the Securities Valuation Office of the National Association of Insurance Commissioners of the bond investments of insurers for regulatory reporting purposes and assignments of securities to one of six investment categories.
Non-Rule 180 Qualified Plan Customers	Owners of group annuity contracts issued by Principal Life Insurance Company designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code and which covers employees described in Section 401(c) of the Internal Revenue Code but which does not meet the requirements of Rule 180 promulgated under the Securities Act of 1933.
Qualified Plan Customers	Owners of group annuity contracts issued by Principal Life Insurance Company designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Internal Revenue Code (including a plan covering employees described in Section 401(c) of the Internal Revenue Code, provided such plan meets the requirements of Rule 180 promulgated under the Securities Act of 1933) or which is a governmental plan described in Section 414(d) of the Internal Revenue Code, excluding (i) group annuity contracts that fund only guaranteed deferred annuities or annuities in the course of payments and (ii) group annuity contracts for which Principal Life does not perform retirement plan record keeping services and whose group annuity contracts do not provide for investments in Principal Life's pooled unregistered separate accounts.
Restricted Stock	Awards of common stock subject to restrictions on transferability and a risk of forfeiture.

Restricted Stock Units.....	Contractual rights to receive cash or common stock in the future that are the economic equivalent of an award of Restricted Stock.
Separate Account Policy Credits.....	Policy credits issued to a Qualified Plan Customer in the form of an addition to the Qualified Plan Customer's group annuity contract of an interest in a separate account holding shares of our common stock and maintained by Principal Life Insurance Company. The separate account interests issued as Separate Account Policy Credits to a Qualified Plan Customer will be allocated to plan participants' accounts, where appropriate, based on account balances for which records are kept by Principal Life Insurance Company unless the Qualified Plan Customer directs otherwise.
Stock Appreciation Rights.....	Rights to receive cash or stock based on the appreciation in value of the common stock from the date of grant.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS -- FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

Report of Independent Auditors..... F-2

Consolidated Statements of Operations..... F-3

Consolidated Statements of Financial Position..... F-4

Consolidated Statements of Equity..... F-5

Consolidated Statements of Cash Flows..... F-6

Notes to Consolidated Financial Statements..... F-7

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS -- FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

Consolidated Statements of Operations..... F-39

Consolidated Statements of Financial Position..... F-40

Consolidated Statements of Equity..... F-41

Consolidated Statements of Cash Flows..... F-42

Notes to Consolidated Financial Statements..... F-43

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Principal Mutual Holding Company

We have audited the accompanying consolidated statements of financial position of Principal Mutual Holding Company (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Principal Mutual Holding Company at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Des Moines, Iowa
February 2, 2001, except for Note 16,
as to which the date is April 30, 2001

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(IN MILLIONS)		
REVENUES			
Premiums and other considerations	$3,996.4	$3,937.6	$3,818.4
Fees and other revenue	1,576.3	1,287.3	978.8
Net investment income	3,172.3	3,072.0	2,933.9
Net realized capital gains	139.9	404.5	465.8
Total revenues	8,884.9	8,701.4	8,196.9
EXPENSES			
Benefits, claims and settlement expenses	5,232.3	5,260.9	5,089.0
Dividends to policyholders	312.7	304.6	298.7
Operating expenses	2,479.4	2,070.3	2,074.0
Total expenses	8,024.4	7,635.8	7,461.7
Income before income taxes	860.5	1,065.6	735.2
Income taxes	240.3	323.5	42.2
Net income	$ 620.2	$ 742.1	$ 693.0

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31,	
	2000	1999
	(IN MILLIONS)	
ASSETS		
Fixed maturities, available-for-sale	$26,839.9	$23,443.9
Equity securities, available-for-sale	742.9	864.2
Mortgage loans	11,492.7	13,332.2
Real estate	1,400.5	2,212.0
Policy loans	803.6	780.5
Other investments	811.0	710.4
Total investments	42,090.6	41,343.2
Cash and cash equivalents	926.6	569.5
Accrued investment income	530.8	472.0
Premiums due and other receivables	357.8	419.5
Deferred policy acquisition costs	1,333.3	1,430.9
Property and equipment	507.0	507.7
Goodwill and other intangibles	1,375.9	1,471.5
Mortgage loan servicing rights	1,084.4	1,081.0
Separate account assets	34,916.2	34,992.3
Other assets	1,134.4	1,544.6
Total assets	$84,257.0	$83,832.2
LIABILITIES		
Contractholder funds	$24,300.2	$24,519.8
Future policy benefits and claims	13,198.1	12,491.2
Other policyholder funds	597.4	676.9
Short-term debt	459.5	547.3
Long-term debt	1,336.5	1,492.9
Income taxes currently payable	108.4	153.2
Deferred income taxes	487.4	271.7
Separate account liabilities	34,916.2	34,992.3
Other liabilities	2,600.8	3,134.0
Total liabilities	78,004.5	78,279.3
EQUITY		
Retained earnings	6,312.5	5,692.3
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities	129.9	(79.1)
Net foreign currency translation adjustment	(189.9)	(60.3)
Total equity	6,252.5	5,552.9
Total liabilities and equity	$84,257.0	$83,832.2

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF EQUITY

	RETAINED EARNINGS	NET UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE SECURITIES	NET FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL EQUITY
		(IN MILLIONS)		
BALANCES AT JANUARY 1, 1998	$4,257.2	$ 1,037.5	$ (10.5)	$ 5,284.2
Comprehensive income:				
Net income	693.0	--	--	693.0
Net change in unrealized gains and losses on fixed maturities, available-for-sale	--	(203.3)	--	(203.3)
Net change in unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	--	(291.3)	--	(291.3)
Adjustments for assumed changes in amortization patterns:				
Deferred policy acquisition costs	--	37.1	--	37.1
Unearned revenue reserves	--	(3.6)	--	(3.6)
Provision for deferred income tax benefit	--	169.5	--	169.5
Change in net foreign currency translation adjustment	--	--	(18.4)	(18.4)
Comprehensive income				383.0
BALANCES AT DECEMBER 31, 1998	4,950.2	745.9	(28.9)	5,667.2
Comprehensive loss:				
Net income	742.1	--	--	742.1
Net change in unrealized gains and losses on fixed maturities, available-for-sale	--	(1,375.4)	--	(1,375.4)
Net change in unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	--	(119.2)	--	(119.2)
Adjustments for assumed changes in amortization patterns:				
Deferred policy acquisition costs	--	246.1	--	246.1
Unearned revenue reserves	--	(29.5)	--	(29.5)
Provision for deferred income tax benefit	--	453.0	--	453.0
Change in net foreign currency translation adjustment	--	--	(31.4)	(31.4)
Comprehensive loss				(114.3)
BALANCES AT DECEMBER 31, 1999	5,692.3	(79.1)	(60.3)	5,552.9
Comprehensive income:				
Net income	620.2	--	--	620.2
Net change in unrealized gains and losses on fixed maturities, available-for-sale	--	721.8	--	721.8
Net change in unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	--	(285.3)	--	(285.3)
Adjustments for assumed changes in amortization patterns:				
Deferred policy acquisition costs	--	(122.6)	--	(122.6)
Unearned revenue reserves	--	15.1	--	15.1
Provision for deferred income taxes	--	(120.0)	--	(120.0)
Change in net foreign currency translation adjustment	--	--	(129.6)	(129.6)
Comprehensive income				699.6
BALANCES AT DECEMBER 31, 2000	$6,312.5	$ 129.9	$(189.9)	$ 6,252.5

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(IN MILLIONS)		
OPERATING ACTIVITIES			
Net income	$ 620.2	$ 742.1	$ 693.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred policy acquisition costs	238.6	173.7	219.0
Additions to deferred policy acquisition costs	(263.6)	(253.8)	(229.1)
Accrued investment income	(58.8)	(41.2)	22.9
Premiums due and other receivables	(11.4)	52.0	(16.1)
Contractholder and policyholder liabilities and dividends	1,451.6	1,633.0	1,616.1
Current and deferred income taxes	75.0	155.6	(266.2)
Net realized capital gains	(139.9)	(404.5)	(465.8)
Depreciation and amortization expense	128.0	90.8	110.5
Amortization and impairment/recovery of mortgage servicing rights	157.3	94.4	142.3
Other	384.7	(182.6)	90.0
Net adjustments	1,961.5	1,317.4	1,223.6
Net cash provided by operating activities	2,581.7	2,059.5	1,916.6
INVESTING ACTIVITIES			
Available-for-sale securities:			
Purchases	(13,051.0)	(11,510.2)	(7,475.1)
Sales	7,366.0	7,031.0	5,857.2
Maturities	2,675.3	2,599.2	1,376.7
Mortgage loans acquired or originated	(10,507.5)	(16,594.6)	(14,261.4)
Mortgage loans sold or repaid	12,026.8	16,361.5	14,477.8
Net change in mortgage servicing rights	(182.9)	(307.5)	(387.4)
Real estate acquired	(324.4)	(449.7)	(436.3)
Real estate sold	796.9	869.8	661.6
Net change in property and equipment	(11.5)	(14.7)	(23.1)
Proceeds from sales of subsidiaries	--	41.7	95.5
Purchases of interest in subsidiaries, net of cash acquired	(27.4)	(1,154.6)	(217.7)
Net change in other investments	22.0	(166.6)	(360.9)
Net cash used in investing activities	(1,217.7)	(3,294.7)	(693.1)
FINANCING ACTIVITIES			
Issuance of debt	230.4	885.2	243.0
Principal repayments of debt	(120.7)	(40.2)	(50.9)
Proceeds of short-term borrowings	2,417.5	5,150.9	8,627.7
Repayment of short-term borrowings	(2,505.4)	(4,895.7)	(8,924.3)
Investment contract deposits	3,982.6	5,325.4	5,854.1
Investment contract withdrawals	(5,011.3)	(5,081.7)	(7,058.3)
Net cash provided by (used in) financing activities	(1,006.9)	1,343.9	(1,308.7)
Net increase (decrease) in cash and cash equivalents	357.1	108.7	(85.2)
Cash and cash equivalents at beginning of year	569.5	460.8	546.0
Cash and cash equivalents at end of year	$ 926.6	$ 569.5	$ 460.8
SCHEDULE OF NONCASH OPERATING AND INVESTING ACTIVITIES			
Net transfer of noncash assets and liabilities to an unconsolidated limited liability company in exchange for a minority interest	$ (255.0)		
Net transfer of noncash assets and liabilities of Principal Health Care Inc. on April 1, 1998 in exchange for common shares of Coventry Health Care, Inc			$ (160.0)

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2000

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REORGANIZATION

Effective July 1, 1998, Principal Mutual Life Insurance Company formed a mutual insurance holding company ("Principal Mutual Holding Company") and converted to a stock life insurance company ("Principal Life Insurance Company"). All of the shares of Principal Life Insurance Company ("Principal Life") were issued to Principal Mutual Holding Company through two newly formed intermediate holding companies, Principal Financial Group, Inc. and Principal Financial Services, Inc. The reorganization itself did not have a material financial impact on Principal Mutual Holding Company and its consolidated subsidiaries, as the net assets so transferred to achieve the change in legal organization were accounted for at historical carrying amounts in a manner similar to that in pooling-of-interests accounting.

PLAN OF DEMUTUALIZATION

In 2000, the Board of Directors approved management's recommendation to develop a plan of demutualization to convert Principal Mutual Holding Company into a stock company. Management expects to complete development of the plan of demutualization in the first half of 2001. The plan will primarily address how the organization will be restructured, required approvals, and eligibility for and allocation of policyholder compensation. The proposed plan, when completed, will be subject to approval by the Board of Directors, eligible policyholders of Principal Life Insurance Company and the Insurance Commissioner of the State of Iowa. See Note 16.

DESCRIPTION OF BUSINESS

Principal Mutual Holding Company and its consolidated subsidiaries ("the Company") is a diversified financial services organization engaged in the marketing and management of retirement savings, investment and insurance products and services in the United States and selected international markets and residential mortgage loan origination and servicing in the United States.

BASIS OF PRESENTATION

The accompanying consolidated financial statements of the Company and its majority-owned subsidiaries have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). Less than majority-owned entities in which the Company has at least a 20% interest are reported on the equity basis in the consolidated statements of financial position as other investments. All significant intercompany accounts and transactions have been eliminated.

Total assets of the unconsolidated entities amounted to $3,098.5 million at December 31, 2000 and $3,276.6 million at December 31, 1999. Total revenues of the unconsolidated entities were $2,226.3 million in 2000, $1,978.9 million in 1999 and $1,749.9 million in 1998. During 2000, 1999 and 1998, the Company included $39.1 million, $107.7 million and $18.2 million, respectively, in net investment income representing the Company's share of current year net income of the unconsolidated entities.

CLOSED BLOCK

In conjunction with the formation of the mutual insurance holding company, Principal Life established a closed block for the benefit of individual participating dividend-paying policies in force on that date. The closed block was designed to provide reasonable assurance to policyholders included therein that, after the Reorganization, assets would be available to maintain dividends in aggregate in accordance with the 1997 policy dividend scales if the experience underlying such scales continued. Assets were allocated to the closed block in amounts such that their cash flows together with anticipated revenues from policies included in the closed block, were reasonably expected to be sufficient to support such policies, including provision for payment of claims, expenses, charges and taxes, and to provide for the continuation of dividends in aggregate in accordance with the 1997 policy dividend scales if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if the experience changes.

Assets allocated to the closed block inure to the benefits of the holders of policies included in the closed block. Closed block assets and liabilities are carried on the same basis as similar assets and liabilities held by the Company. Principal Life will continue to pay guaranteed benefits under all policies, including the policies included in the closed block, in accordance with their terms. If the assets allocated to the closed block, the investment cash flows from those assets and the revenues from the policies included in the closed block, including investment income thereon, prove to

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

be insufficient to pay the benefits guaranteed under the policies included in the closed block, Principal Life will be required to make such payments from its general funds. See Note 6.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of the Company's consolidated financial statements and accompanying notes requires management to make estimates and assumptions that affect the amounts reported and disclosed. These estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in the consolidated financial statements and accompanying notes.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, money market instruments and other debt issues with a maturity date of three months or less when purchased.

INVESTMENTS

Investments in fixed maturities and equity securities are classified as available-for-sale and, accordingly, are carried at fair value. (See Note 13 for policies related to the determination of fair value.) The cost of fixed maturities is adjusted for amortization of premiums and accrual of discounts, both computed using the interest method. The cost of fixed maturities and equity securities is adjusted for declines in value that are other than temporary. For the loan-backed and structured securities included in the bond portfolio, the Company recognizes income using a constant effective yield based on currently anticipated prepayments as determined by broker-dealer surveys or internal estimates and the estimated lives of the securities.

Real estate investments are reported at cost less accumulated depreciation. The initial cost bases of properties acquired through loan foreclosures are fair market values of the properties at the time of foreclosure. Buildings and land improvements are generally depreciated on the straight-line method over the estimated useful life of improvements, and tenant improvement costs are depreciated on the straight-line method over the term of the related lease. The Company recognizes impairment losses for its properties when indicators of impairment are present and a property's expected undiscounted cash flows are not sufficient to recover the property's carrying value. In such cases, the cost bases of the properties are reduced to fair value. Real estate expected to be disposed is carried at the lower of cost or fair value, less cost to sell, with valuation allowances established accordingly and depreciation no longer recognized. Any impairment losses and any changes in valuation allowances are reported as net realized capital losses.

Commercial and residential mortgage loans are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method, and net of valuation allowances. Any changes in the valuation allowances are reported as net realized capital gains (losses). The Company measures impairment based upon the present value of expected cash flows discounted at the loan's effective interest rate. If foreclosure is probable, the measurement of any valuation allowance is based upon the fair value of the collateral. The Company has residential mortgage loans held for sale in the amount of $251.7 million and $432.1 million and commercial mortgage loans held for sale in the amount of $520.9 million and $280.1 million at December 31, 2000 and 1999, respectively, which are carried at lower of cost or fair value and reported as mortgage loans in the statements of financial position.

Net realized capital gains and losses on investments are determined using the specific identification basis.

Policy loans and other investments, excluding investments in unconsolidated entities, are primarily reported at cost.

SECURITIZATIONS

The Company sells commercial mortgage loans to an unconsolidated trust which then issues mortgage-backed securities. The Company may retain interests in the loans by purchasing portions of the securities from the issuance. Gain or loss on the sales of the mortgages depends in part on the previous carrying amounts of the financial assets involved in the transfer, which is allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Fair values are determined by quoted market prices of external buyers of each class of security purchased. The retained interests are thereafter carried at fair value as is the case of other fixed maturity investments.

The Company also sells residential mortgage loans in securitization transactions, and retains servicing rights which are retained interests in the securitized loans. Gain or loss on the sales of the loans depends in part on the previous carrying amounts of the financial assets sold and the retained interests based on their relative fair values at the date of

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

the transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company estimates fair value based on the present value of the future expected cash flows using management's best estimates of the key assumptions -- prepayment speeds and option adjusted spreads commensurate with the risks involved.

The Company has developed a margin lending securitization program whereby the Company sells receivables to an unconsolidated trust that packages and sells interests to investors. The Company retains interest bearing subordinated tranches. The receivables are sold at face value, which approximates cost and fair value, to an unconsolidated trust, with no gain or loss recognized on the sale. Retained interests are initially carried at cost based on their relative fair values at the date of transfer, then carried at fair value thereafter.

DERIVATIVES

Derivatives are generally held for purposes other than trading and are primarily used to hedge or reduce exposure to interest rate and foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. Additionally, derivatives are used to change the characteristics of the Company's asset/liability mix consistent with the Company's risk management activities.

The Company's risk of loss is typically limited to the fair value of its derivative instruments and not to the notional or contractual amounts of these derivatives. Risk arises from changes in the fair value of the underlying instruments. The Company is also exposed to credit losses in the event of nonperformance of the counterparties. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits.

The Company's use of derivatives is further described in Note 5. The net interest effect of interest rate and currency swap transactions is recorded as an adjustment to net investment income or interest expense, as appropriate, over the periods covered by the agreements. The cost of other derivative contracts is amortized over the life of the contracts and classified with the results of the underlying hedged item. Certain contracts are designated as hedges of specific assets and, to the extent those assets are marked to market, the hedge contracts are also marked to market and included as an adjustment of the underlying asset value. Other contracts are designated and accounted for as hedges of certain liabilities and are not marked to market. Futures contracts and mortgage-backed forwards are used to hedge anticipated transactions. Futures contracts are marked to market value and settled daily. However, changes in the market value of such contracts have not qualified for inclusion in the measurements of subsequent transactions or represent hedges of items reported at fair value. Accordingly, such changes in market value are reported in net income in the period of change.

Hedge accounting is used for derivatives that are specifically designated in advance as hedges and that reduce the Company's exposure to an indicated risk by having a high correlation between changes in the value of the derivatives and the items being hedged at both the inception of the hedge and throughout the hedge period. Should such criteria not be met or if the hedged items are sold, terminated or matured, the changes in value of the derivatives are included in net income.

CONTRACTHOLDER AND POLICYHOLDER LIABILITIES

Contractholder and policyholder liabilities (contractholder funds, future policy benefits and claims, and other policyholder funds) include reserves for investment contracts and reserves for universal life, limited payment, participating and traditional life insurance policies. Investment contracts are contractholders' funds on deposit with the Company and generally include reserves for pension and annuity contracts. Reserves on investment contracts are equal to the cumulative deposits less any applicable charges plus credited interest.

Reserves for universal life insurance contracts are equal to cumulative premiums less charges plus credited interest which represents the account balances that accrue to the benefit of the policyholders. Reserves for non-participating term life insurance contracts are computed on a basis of assumed investment yield, mortality, morbidity and expenses, including a provision for adverse deviation, which generally vary by plan, year of issue and policy duration. Investment yield is based on the Company's experience. Mortality, morbidity and withdrawal rate assumptions are based on experience of the Company and are periodically reviewed against both industry standards and experience.

Reserves for participating life insurance contracts are based on the net level premium reserve for death and endowment policy benefits. This net level premium reserve is calculated based on dividend fund interest rate and mortality rates guaranteed in calculating the cash surrender values described in the contract.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Participating business represented approximately 34%, 34% and 36% of the Company's life insurance in force and 79%, 78% and 81% of the number of life insurance policies in force at December 31, 2000, 1999 and 1998, respectively. Participating business represented approximately 61%, 63% and 76% of life insurance premiums for the years ended December 31, 2000, 1999 and 1998, respectively.

The amount of dividends to policyholders is approved annually by Principal Life's Board of Directors. The amount of dividends to be paid to policyholders is determined after consideration of several factors including interest, mortality, morbidity and other expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by Principal Life. At the end of the reporting period, Principal Life establishes a dividend liability for the pro-rata portion of the dividends expected to be paid on or before the next policy dividend anniversary date.

Some of the Company's policies and contracts require payment of fees in advance for services that will be rendered over the estimated lives of the policies and contracts. These payments are established as unearned revenue reserves upon receipt and included in other policyholder funds in the consolidated statements of financial position. These unearned revenue reserves are amortized to operations over the estimated lives of these policies and contracts in relation to the emergence of estimated gross profit margins.

The liability for unpaid accident and health claims is an estimate of the ultimate net cost of reported and unreported losses not yet settled. This liability is estimated using actuarial analyses and case basis evaluations. Although considerable variability is inherent in such estimates, the Company believes that the liability for unpaid claims is adequate. These estimates are continually reviewed and, as adjustments to this liability become necessary, such adjustments are reflected in current operations.

RECOGNITION OF PREMIUMS AND OTHER CONSIDERATIONS, FEES AND OTHER REVENUES AND BENEFITS

Traditional individual life and health insurance products include those products with fixed and guaranteed premiums and benefits, and consist principally of whole life and term life insurance policies and certain immediate annuities with life contingencies. Premiums from these products are recognized as premium revenue when due.

Immediate annuities with life contingencies include products with fixed and guaranteed annuity considerations and benefits, and consist primarily of group and individual single premium annuities with life contingencies. Annuity considerations from these products are recognized as revenue when due.

Group life and health insurance premiums are generally recorded as premium revenue over the term of the coverage. Some group contracts allow for premiums to be adjusted to reflect emerging experience. Such adjusted premiums are recognized in the period that the related experience emerges. Fees for contracts providing claim processing or other administrative services are recorded over the period the service is provided.

Related policy benefits and expenses for individual and group life and health insurance products are associated with earned premiums and result in the recognition of profits over the expected lives of the policies and contracts.

Universal life-type policies are insurance contracts with terms that are not fixed and guaranteed. Amounts received as payments for such contracts are not reported as premium revenues. Revenues for universal life-type insurance contracts consist of policy charges for the cost of insurance, policy initiation and administration, surrender charges and other fees that have been assessed against policy account values. Policy benefits and claims that are charged to expense include interest credited to contracts and benefit claims incurred in the period in excess of related policy account balances.

Investment contracts do not subject the Company to risks arising from policyholder mortality or morbidity, and consist primarily of Guaranteed Investment Contracts ("GICs") and certain deferred annuities. Amounts received as payments for investment contracts are established as investment contract liability balances and are not reported as premium revenues. Revenues for investment contracts consist of investment income and policy administration charges. Investment contract benefits that are charged to expense include benefit claims incurred in the period in excess of related investment contract liability balances and interest credited to investment contract liability balances.

Fees and other revenues are earned for asset management services provided to retail and institutional clients based largely upon contractual rates applied to the market value of the client's portfolio. Additionally, fees and other revenues are earned for administrative services performed including recordkeeping and reporting services for retirement savings plans. Fees and other revenues received for performance of asset management and administrative services are recognized as revenue when the service is performed.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Fees and other revenues arising from the residential mortgage banking operations consist of revenues earned for servicing and originating residential mortgage loans as well as marketing other products to servicing portfolio customers. Servicing revenues are recognized as the mortgage loan is serviced over the life of the mortgage loan. Mortgage loans originated are sold in the secondary mortgage markets, shortly after origination. As a result, mortgage loan origination fee revenues are recognized when the mortgage loans are sold. Fee revenues received for marketing other products to servicing portfolio customers are recognized when the service is performed. Net revenues are also recognized upon the sale of residential mortgage loans and residential mortgage loan servicing rights and are determined using the specific identification basis.

DEFERRED POLICY ACQUISITION COSTS

Commissions and other costs (underwriting, issuance and agency expenses) that vary with and are primarily related to the acquisition of new and renewal insurance policies and investment contract business are capitalized to the extent recoverable. Acquisition costs that are not deferrable and maintenance costs are charged to operations as incurred.

Deferred policy acquisition costs for universal life-type insurance contracts and participating life insurance policies and investment contracts are being amortized over the lives of the policies and contracts in relation to the emergence of estimated gross profit margins. This amortization is adjusted retrospectively when estimates of current or future gross profits and margins to be realized from a group of products and contracts are revised. The deferred policy acquisition costs of non-participating term life insurance policies are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policyholder liabilities.

Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing at the end of each accounting period. Deferred policy acquisition costs would be written off to the extent that it is determined that future policy premiums and investment income or gross profit margins would not be adequate to cover related losses and expenses.

REINSURANCE

The Company enters into reinsurance agreements with other companies in the normal course of business. The Company may assume reinsurance from or cede reinsurance to other companies. Premiums and expenses are reported net of reinsurance ceded. The Company is contingently liable with respect to reinsurance ceded to other companies in the event the reinsurer is unable to meet the obligations it has assumed. At December 31, 2000, 1999 and 1998 respectively, the Company had reinsured $13.2 billion, $10.2 billion and $6.9 billion of life insurance in force, representing 9%, 7% and 5% of total net life insurance in force through a single third-party reinsurer. To minimize the possibility of losses, the Company evaluates the financial condition of its reinsurers and continually monitors concentrations of credit risk.

The effect of reinsurance on premiums and other considerations and policy and contract benefits and changes in reserves is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Premiums and other considerations:			
Direct	$4,142.1	$3,990.0	$3,799.9
Assumed	24.6	4.1	62.2
Ceded	(170.3)	(56.5)	(43.7)
Net premiums and other considerations	$3,996.4	$3,937.6	$3,818.4
Benefits, claims and settlement expenses:			
Direct	$5,387.8	$5,296.1	$5,051.5
Assumed	1.9	(1.3)	66.0
Ceded	(157.4)	(33.9)	(28.5)
Net benefits, claims and settlement expenses	$5,232.3	$5,260.9	$5,089.0

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

GUARANTY-FUND ASSESSMENTS

Guaranty-fund assessments are accrued for anticipated assessments, which are estimated using data available from various industry sources that monitor the current status of open and closed insolvencies. The Company has also established an other asset for assessments expected to be recovered through future premium tax offsets.

SEPARATE ACCOUNTS

The separate account assets and liabilities presented in the consolidated financial statements represent the fair market value of funds that are separately administered by the Company for contracts with equity, real estate and fixed-income investments. Generally, the separate account contract owner, rather than the Company, bears the investment risk of these funds. The separate account assets are legally segregated and are not subject to claims that arise out of any other business of the Company. The Company receives a fee for administrative, maintenance and investment advisory services that is included in the consolidated statements of operations. Net deposits, net investment income and realized and unrealized capital gains and losses on the separate accounts are not reflected in the consolidated statements of operations.

INCOME TAXES

The Company files a U.S. consolidated income tax return that includes all of its qualifying subsidiaries and has a policy of allocating income tax expenses and benefits to companies in the group based upon pro rata contribution of taxable income or operating losses. The Company is taxed at corporate rates on taxable income based on existing tax laws. Current income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax bases of assets and liabilities and net operating losses using enacted income tax rates and laws. The effect on deferred tax assets and deferred tax liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted.

FOREIGN EXCHANGE

The Company's foreign subsidiaries' statements of financial position and operations are translated at the current exchange rates and average exchange rates for the year, respectively. Resulting translation adjustments for foreign subsidiaries and certain other transactions are reported as a component of equity. Other translation adjustments for foreign currency transactions that affect cash flows are reported in current operations.

PENSION AND POSTRETIREMENT BENEFITS

The Company accounts for its pension benefits and postretirement benefits other than pension (medical, life insurance and long-term care) using the full accrual method.

PROPERTY AND EQUIPMENT

Property and equipment includes home office properties, related leasehold improvements, purchased and internally developed software and other fixed assets. Property and equipment use is shown in the consolidated statements of financial position at cost less allowances for accumulated depreciation. Provisions for depreciation of property and equipment are computed principally on the straight-line method over the estimated useful lives of the assets. Property and equipment and related accumulated depreciation are as follows (in millions):

	DECEMBER 31,	
	2000	1999
Property and equipment	$ 924.6	$ 887.8
Accumulated depreciation	(417.6)	(380.1)
Property and equipment, net	$ 507.0	$ 507.7

GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles include the cost of acquired subsidiaries in excess of the fair value of the net assets (i.e., goodwill) and other intangible assets which have been recorded in connection with acquisitions. These assets are amortized on a straight-line basis generally over 8 to 40 years. At December 31, 2000, the weighted-average

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

amortization periods for goodwill and other intangibles were 22.4 years and 38.6 years, respectively. The carrying amount of goodwill and other intangibles is reviewed periodically for indicators of impairment in value, which in the view of management are other than temporary, including unexpected or adverse changes in the economic or competitive environments in which the Company operates, profitability analyses and the fair value of the relevant subsidiary. If facts and circumstances suggest that a subsidiary's goodwill is impaired, the Company assesses the fair value of the underlying business and reduces the goodwill to an amount that results in the book value of the subsidiary approximating fair value.

Goodwill and other intangibles, and related accumulated amortization, are as follows (in millions):

	DECEMBER 31,	
	2000	1999
Goodwill	$ 559.0	$ 610.9
Other intangibles	908.0	920.1
	1,467.0	1,531.0
Accumulated amortization	(91.1)	(59.5)
Total goodwill and other intangibles, net	$1,375.9	$1,471.5

PREMIUMS DUE AND OTHER RECEIVABLES

Premiums due and other receivables include life and health insurance premiums due, reinsurance recoveries, guaranty funds receivable or on deposit, receivables from the sale of securities and other receivables.

MORTGAGE LOAN SERVICING RIGHTS

Mortgage loan servicing rights represent the cost of purchasing or originating the right to service mortgage loans. These costs are capitalized and amortized to operations over the estimated remaining lives of the underlying loans using the interest method and taking into account appropriate prepayment assumptions. Capitalized mortgage loan servicing rights are periodically assessed for impairment, which is recognized in the consolidated statements of operations during the period in which impairment occurs by establishing a corresponding valuation allowance. For purposes of performing its impairment evaluation, the Company stratifies the servicing portfolio on the basis of specified predominant risk characteristics, including loan type and note rate. A valuation model is used to determine the fair value of each stratum. Cash flows are calculated using an internal prepayment model and discounted at a spread to London Inter-Bank Offer Rate. External valuations are obtained for comparison purposes. Activity in the valuation allowance for mortgage loan servicing rights is summarized as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Balance at beginning of year	$ 2.9	$ 56.1	$ 4.2
Impairments	1.1	1.7	120.0
Recoveries	(1.7)	(54.9)	(68.1)
Balance at end of year	$ 2.3	$ 2.9	$ 56.1

OTHER ASSETS

Included in other assets are certain assets pending transfer or novation that are carried at fair value (see Note 2). The remainder of other assets are reported primarily at cost.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders, which would not be applicable to a mutual holding company.

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

The following table sets forth the adjustments necessary to avoid duplication of items that are included as part of net income for a year that had been part of other comprehensive income in prior years (in millions):

	DECEMBER 31,		
	2000	1999	1998
Unrealized gains (losses) on available-for-sale securities arising during the year	$238.9	$(1,013.2)	$(531.8)
Adjustment for realized gains (losses) on available-for-sale securities included in net income	(29.9)	188.2	240.2
Unrealized gains (losses) on available-for-sale securities, as adjusted	$209.0	$ (825.0)	$(291.6)

The above adjustment for net realized gains on available-for-sale securities included in net income is presented net of tax, related changes in the amortization patterns of deferred policy acquisition costs and unearned revenue reserves.

RECLASSIFICATIONS

Reclassifications have been made to the 1998 and 1999 consolidated financial statements to conform to the 2000 presentation.

ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities("SFAS 133"). In June 1999, Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133 ("SFAS 137") was issued deferring the effective date of SFAS 133 by one year. The new effective date for the Company to adopt SFAS 133 is January 1, 2001. In June 2000, the FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133 which amended the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities. SFAS 133 will require the Company to include all derivatives in the consolidated statement of financial position at fair value. The accounting for changes in the fair value of a derivative depends on its intended use. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. Derivatives not used in hedging activities must be adjusted to fair value through earnings. The Company adopted SFAS 133 effective January 1, 2001. The Company evaluated the effect implementation would have on its reported results of operations and financial position, based on derivatives holdings and market conditions as of December 31, 2000. That evaluation indicated that the implementation of SFAS 133 would not have had a material impact on the results of operations and financial position as of and for the year ended December 31, 2000.

On January 1, 1999, the Company implemented the Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. SOP 98-1 defines internal use software and when the costs associated with internal use should be capitalized. The implementation did not have a material impact on the Company's consolidated financial statements.

In December 2000, the Accounting Standards Executive Committee issued Statement of Position 00-3, Accounting by Insurance Enterprises for Demutualization and Formation of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts. The effective date for adoption of SOP 00-3, with retroactive application and restatement of all previously issued financial statements, is for fiscal years beginning after December 15, 2000, however, early adoption is encouraged by the Accounting Standards Executive Committee. The Statement provides guidance on accounting by insurance companies for demutualization and the formation of mutual insurance holding companies. The Statement specifies that closed block assets, liabilities, revenues and expenses should be displayed together with all other assets, liabilities, revenues and expenses of the insurance enterprise based on the nature of the particular item, with appropriate disclosures relating to the closed block. The Statement also provides guidance regarding: accounting for predemutualization participating contracts, establishment of a policyholder dividend obligation for earnings that relate to the closed block, but do not inure to stockholders, if applicable, accounting for participating policies sold outside the closed block, accounting for expenses related to a demutualization and the formation of an MIHC, accounting for retained earnings and other comprehensive income and accounting for a distribution from an

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

MIHC to its members. The Company early adopted SOP 00-3 during 2000, and financial statements for all periods presented have been reclassified to reflect the guidance set forth in SOP 00-3. See Note 6.

2. MERGERS, ACQUISITIONS AND DIVESTITURES

During 2000, various acquisitions of joint ventures were made by the Company at purchase prices aggregating $27.4 million. During 2000, the Company included $(2) million in net investment income representing the Company's share of current year net losses of the acquired joint ventures. These joint ventures are part of unconsolidated entities described in Note 1.

On December 21, 2000, the Company entered into an agreement to dispose of the stock of Principal International Espana, S.A. de Seguros de Vida, a subsidiary in Spain. The transaction is expected to be completed in the first quarter of 2001, after which the Company will have no business operations in Spain. In 2000, the consolidated financial statements included $222.7 million in assets, $49.4 million in revenues and $(1.2) million of pretax losses related to these operations.

Beginning January 1, 2000, the Company ceased new sales of Medicare supplement insurance and effective July 1, 2000, the Company entered into a reinsurance agreement to reinsure 100% of the Medicare supplement insurance block of business. Medicare supplement insurance premiums were $98.4 million for the six months ended June 30, 2000 and $164.6 million for the year ended December 31, 1999.

On August 31, 1999, the Company acquired the outstanding stock of several companies affiliated with Bankers Trust Australia Group ("Acquired Companies") from Deutsche Bank AG at a purchase price of $1,445.6 million. The acquisition was accounted for using the purchase method and results of operations of the Acquired Companies have been included in the consolidated financial statements from the date of acquisition. In connection with the acquisition, the Company and Deutsche Bank AG agreed to the sale of the investment banking operations of the Acquired Companies to Macquarie Bank Limited, with net proceeds of $63.7 million from this transaction being included in the acquired assets.

The purchase price and $9.4 million of direct acquisition costs have been allocated to the assets acquired and liabilities assumed based on their respective fair market values at the acquisition date. The allocation included identifiable intangibles represented by management rights for the funds management business and the brand name of $897.4 million and $38.5 million of workforce intangibles, with $408.6 million of resulting goodwill, which are being amortized on a straight-line basis over 40, 8 and 25 years, respectively. Refinements in the allocation were made in 2000 as accounting completion and valuation studies were finalized.

Completion of the sale of the investment banking operations required the transfer or novation to Macquarie Bank Limited of the investment banking assets and liabilities of the Acquired Companies. The bulk of these were statutorily transferred on August 3, 1999, pursuant to the procedures laid down in the Financial Sector (Transfers of Business) Act ("the Act") of the Commonwealth of Australia. Certain assets and liabilities which are governed by a law other than that of Australia, or which the Act does not address, were excluded from the statutory transfer. For these assets and liabilities it has been necessary to effect individual transfers or novations, in some cases with the agreement of the relevant customers or counterparties. Pending such transfers or novations, the Company agreed, as part of the sale of the investment banking operations, that these assets and liabilities will remain in the name of one of the Acquired Companies, but all economic risks and benefits associated with them will be assumed and a related indemnification provided by Macquarie Bank Limited. In addition, the Company may rely upon Deutsche Bank AG to ensure that the Company does not suffer any claim or loss related to the investment banking operations sold, including the assets and liabilities, respectively, that will remain in the name of the Acquired Companies pending transfer or novation. These assets and liabilities which remain in the name of one of the Acquired Companies and aggregated $1,020.7 million and $652.7 million at December 31, 1999, respectively, are reported at fair value and included in other assets and other liabilities in the Company's consolidated statement of financial position, with a net payable to Macquarie Bank Limited of $368.0 million. At December 31, 2000, these assets and liabilities aggregated $424.1 million and $219.6 million, respectively, with a net payable to Macquarie Bank Limited of $204.5 million.

During 1999, various other acquisitions were made by the Company at purchase prices aggregating $121.5 million. The acquisitions were all accounted for using the purchase method and the results of operations of the acquired businesses have been included in the financial statements of the subsidiaries from the dates of acquisition. Such acquired companies had total assets at December 31, 1999 and total 1999 revenue of $126.9 million and $11.2 million, respectively.

2. MERGERS, ACQUISITIONS AND DIVESTITURES -- (CONTINUED)

Effective April 1, 1998, the Company transferred substantially all of its managed care operations with Coventry Corporation in exchange for a non-majority ownership position in the resulting entity, Coventry Health Care, Inc. The Company's investment in Coventry Health Care, Inc. is accounted for using the equity method. Net equity of the transferred business on April 1, 1998 was $170.0 million. Consolidated financial results for 1997 included total assets at December 31, 1997, and total revenues and pretax loss for the year then ended of approximately $419.0 million, $883.3 million and $(26.1) million, respectively, for the transferred business. In September 2000, the Company sold a portion of its equity ownership position, which reduced its ownership to approximately 25% and resulted in a realized capital gain of $13.9 million, net of tax.

During 1998, various acquisitions were made by the Company at purchase prices aggregating $224.5 million. The acquisitions were all accounted for using the purchase method and the results of operations of the acquired businesses have been included in the financial statements of the subsidiaries from the dates of acquisition. Such acquired companies had total assets at December 31, 1998 and total 1998 revenue of $458.8 million and $58.3 million, respectively.

During 1998, various divestitures were made by the Company at selling prices aggregating $117.9 million and $15.3 million in net realized capital gains were realized as a result of these divestitures. In 1997, the financial statements included $151.6 million in assets, $205.7 million in revenues and $19.8 million of pretax losses related to these subsidiaries.

Effective July 1, 1998, the Company no longer participates in reinsurance pools related to the Federal Employee Group Life Insurance and Service Group Life Insurance programs. In 1997, the premium assumed from these arrangements was approximately $84.9 million.

3. INVESTMENTS

Under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, securities are generally classified as available-for-sale, held-to-maturity, or trading. The Company has classified its entire fixed maturities portfolio as available-for-sale, although it is generally the Company's intent to hold these securities to maturity. The Company has also classified all equity securities as available-for-sale. Securities classified as available-for-sale are reported at fair value in the consolidated statements of financial position with the related unrealized holding gains and losses on such available-for-sale securities reported as a separate component of equity after adjustments for related changes in deferred policy acquisition costs, unearned revenue reserves and deferred income taxes.

3. INVESTMENTS -- (CONTINUED)

The cost, gross unrealized gains and losses and fair value of fixed maturities and equity securities available-for-sale as of December 31, 2000 and 1999, are as follows (in millions):

	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
DECEMBER 31, 2000				
Fixed maturities:				
United States Government and agencies	$ 23.2	$ 0.1	$ 0.2	$ 23.1
Foreign governments	895.7	27.6	5.3	918.0
States and political subdivisions	287.4	12.5	4.2	295.7
Corporate -- public	9,027.2	219.5	129.4	9,117.3
Corporate -- private	9,809.9	208.9	206.0	9,812.8
Mortgage-backed and other asset-backed securities	6,496.1	211.2	34.3	6,673.0
Total fixed maturities	$26,539.5	$679.8	$379.4	$26,839.9
Total equity securities	$ 805.9	$191.2	$254.2	$ 742.9
DECEMBER 31, 1999				
Fixed maturities:				
United States Government and agencies	$ 163.7	$ --	$ 1.7	$ 162.0
Foreign governments	820.2	18.7	15.2	823.7
States and political subdivisions	176.0	1.3	9.8	167.5
Corporate -- public	5,425.4	74.4	140.6	5,359.2
Corporate -- private	11,476.9	106.7	363.0	11,220.6
Mortgage-backed and other asset-backed securities	5,832.2	12.6	133.9	5,710.9
Total fixed maturities	$23,894.4	$213.7	$664.2	$23,443.9
Total equity securities	$ 720.8	$176.3	$ 32.9	$ 864.2

The cost and fair value of fixed maturities available-for-sale at December 31, 2000, by expected maturity, are as follows (in millions):

	COST	FAIR VALUE
Due in one year or less	$ 1,125.2	$ 1,113.0
Due after one year through five years	9,782.8	9,783.0
Due after five years through ten years	5,273.6	5,352.8
Due after ten years	3,861.8	3,918.1
	20,043.4	20,166.9
Mortgage-backed and other asset-backed securities	6,496.1	6,673.0
Total	$26,539.5	$26,839.9

The above summarized activity is based on expected maturities. Actual maturities may differ because borrowers may have the right to call or pre-pay obligations.

3. INVESTMENTS -- (CONTINUED)

Major categories of net investment income are summarized as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Fixed maturities, available-for-sale	$1,880.7	$1,712.4	$1,587.5
Equity securities, available-for-sale	67.6	46.2	31.6
Mortgage loans	1,022.9	1,111.1	1,143.0
Real estate	171.3	187.5	143.2
Policy loans	55.1	50.2	50.9
Cash and cash equivalents	32.3	25.9	8.8
Other	81.1	55.3	108.1
	3,311.0	3,188.6	3,073.1
Less investment expenses	(138.7)	(116.6)	(139.2)
Net investment income	$3,172.3	$3,072.0	$2,933.9

The major components of net realized capital gains on investments are summarized as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Fixed maturities, available-for-sale:			
Gross gains	$ 29.1	$ 31.2	$ 61.4
Gross losses	(155.0)	(128.1)	(33.5)
Equity securities, available-for-sale:			
Gross gains	84.2	408.7	341.7
Gross losses	(5.0)	(25.7)	(38.8)
Mortgage loans	8.6	(8.4)	6.3
Real estate	82.3	56.4	120.6
Other	95.7	70.4	8.1
Net realized capital gains	$ 139.9	$ 404.5	$465.8

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities were $5.7 billion, $5.5 billion and $2.8 billion in 2000, 1999 and 1998 respectively. Of the 2000, 1999 and 1998 proceeds, $2.6 billion, $3.8 billion and $2.2 billion, respectively, relates to sales of mortgage-backed securities. The Company actively manages its mortgage-backed securities portfolio to control prepayment risk. Gross gains of $2.0 million, $2.1 million and $23.0 million and gross losses of $40.1 million, $60.3 million and $7.0 million in 2000, 1999 and 1998, respectively, were realized on sales of mortgage-backed securities. At December 31, 1999, the Company had security purchases payable totaling $21.9 million relating to the purchases of mortgage-backed securities at forward dates.

The net unrealized gains and losses on investments in fixed maturities and equity securities available-for-sale is reported as a separate component of equity, reduced by adjustments to deferred policy acquisition costs and unearned revenue reserves that would have been required as a charge or credit to operations had such amounts been realized and a provision for deferred income taxes. The cumulative amount of net unrealized gains and losses on available-for-sale securities is as follows (in millions):

	DECEMBER 31,	
	2000	1999
Net unrealized gains and losses on fixed maturities, available-for-sale	$283.9	$(437.9)
Net unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	(55.6)	229.7
Adjustments for assumed changes in amortization patterns:		
Deferred policy acquisition costs	(43.2)	79.4
Unearned revenue reserves	2.8	(12.3)
Provision for deferred income (taxes) tax benefit	(58.0)	62.0
Net unrealized gains and losses on available-for-sale securities	$129.9	$ (79.1)

3. INVESTMENTS -- (CONTINUED)

The corporate private placement bond portfolio is diversified by issuer and industry. Restrictive bond covenants are monitored by the Company to regulate the activities of issuers and control their leveraging capabilities.

Commercial mortgage loans and corporate private placement bonds originated or acquired by the Company represent its primary areas of credit risk exposure. At December 31, 2000 and 1999, the commercial mortgage portfolio is diversified by geographic region and specific collateral property type as follows:

GEOGRAPHIC DISTRIBUTION

	DECEMBER 31,	
	2000	1999
New England	5%	5%
Middle Atlantic	15	14
East North Central	9	10
West North Central	4	5
South Atlantic	24	25
East South Central	4	3
West South Central	8	7
Mountain	6	5
Pacific	26	27
Valuation allowance	(1)	(1)

PROPERTY TYPE DISTRIBUTION

	DECEMBER 31,	
	2000	1999
Office	30%	31%
Retail	34	33
Industrial	31	32
Apartments	4	3
Hotel	1	1
Mixed use/other	1	1
Valuation allowance	(1)	(1)

Mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to contractual terms of the loan agreement. When the Company determines that a loan is impaired, a provision for loss is established for the difference between the carrying amount of the mortgage loan and the estimated value. Estimated value is based on either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or fair value of the collateral. The provision for losses is reported as a net realized capital loss.

Mortgage loans deemed to be uncollectible are charged against the allowance for losses and subsequent recoveries are credited to the allowance for losses. The allowance for losses is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management's periodic evaluation of the adequacy of the allowance for losses is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. The evaluation is inherently subjective as it requires estimating the amounts and timing of future cash flows expected to be received on impaired loans that may change.

A summary of the changes in the mortgage loan allowance for losses is as follows (in millions):

	DECEMBER 31,		
	2000	1999	1998
Balance at beginning of year	$117.8	$113.0	$121.4
Provision for losses	5.4	9.2	7.3
Releases due to write-downs, sales and foreclosures	(12.8)	(4.4)	(15.7)
Balance at end of year	$110.4	$117.8	$113.0

The Company was servicing approximately 582,000 and 555,000 residential mortgage loans with aggregate principal balances of approximately $55,987.4 million and $51,875.5 million at December 31, 2000 and 1999, respectively. In

connection with these mortgage servicing activities, the Company held funds in trust for others totaling approximately $343.8 million and $334.0 million at December 31, 2000 and 1999, respectively. In connection with its loan administration activities, the Company advances payments of property taxes and insurance premiums and also advances principal and interest payments to investors in advance of collecting funds from specific mortgagors. In addition, the Company makes certain payments of attorney fees and other costs related to loans in foreclosure. These amounts receivable are recorded, at cost, as advances on serviced loans. Amounts advanced are considered in management's evaluation of the adequacy of the mortgage loan allowance for losses.

In June 2000, the Company's mortgage banking segment created a special purpose entity to provide an off-balance sheet source of funding for the Company's residential mortgage loan production. The Company sells residential mortgage loans to the special purpose entity, where they are warehoused until sold to the final investor. A maximum of $1 billion may be warehoused by the special purpose entity at any given time. Through December 31, 2000,

3. INVESTMENTS -- (CONTINUED)

$5,340.8 million of loans had been sold to the special purpose entity and $688.2 million was warehoused by the special purpose entity at December 31, 2000. The Company remains the servicer of the mortgage loans and also performs secondary marketing, accounting and various administrative functions on behalf of the special purpose entity. The special purpose entity is owned by unaffiliated equity certificate holders and thus, is not consolidated with the Company.

In October 2000, the Company's mortgage banking unit also created an unconsolidated qualifying special purpose entity ("QSPE") to provide an off-balance sheet source of funding for up to $250 million of qualifying delinquent mortgage loans. The Company sells qualifying delinquent loans to the QSPE, which then pledges the loans to secure its borrowings from a Delaware business trust. The trust funds its loan to the QSPE by selling participations certifications to commercial paper conduit purchasers. Mortgage loans remain in the QSPE until they are processed through claims, reinstated or paid off. The Company is retained as the servicer on the mortgage loans and also performs accounting and various administrative functions on behalf of the QSPE. The Company's retained interest in the mortgage loans of $10.2 million is classified as other assets in the consolidated statements of financial position.

Real estate holdings and related accumulated depreciation are as follows (in millions):

	DECEMBER 31,	
	2000	1999
Investment real estate	$ 822.2	$1,339.6
Accumulated depreciation	(117.1)	(161.0)
	705.1	1,178.6
Properties held for sale	695.4	1,033.4
Real estate, net	$1,400.5	$2,212.0

Other investments primarily include properties owned jointly with venture partners and operated by the partners. Joint ventures in which the Company has an interest have mortgage loans with the Company of $612.1 million and $760.1 million at December 31, 2000 and 1999, respectively. The Company is committed to providing additional mortgage financing for such joint ventures aggregating $71.5 million and $76.8 million at December 31, 2000 and 1999, respectively.

4. SECURITIZATION TRANSACTIONS

COMMERCIAL MORTGAGE LOANS

During 2000 and 1999, the Company sold commercial mortgage loans in securitization transactions. In each of those securitizations, the Company retained primary servicing responsibilities and other interests. The Company receives annual servicing fees approximating 0.01 percent, which approximates cost. The investors and the securitization trusts have no recourse to the Company's other assets for failure of debtors to pay when due. The value of the Company's retained interests is subject primarily to credit risk.

In 2000, the Company recognized pretax gains of $0.7 million on the securitization of commercial mortgage loans.

Key economic assumptions used in measuring the retained interests at the date of securitization resulting from transactions completed during the year included a cumulative default rate between five and eight percent. The assumed range of the loss severity, as a percentage of defaulted loans, was between 13 and 25 percent. The low end of the loss severity range relates to a portfolio of seasoned loans. The high end of the loss severity range relates to a portfolio of newly issued loans.

At December 31, 2000, the fair values of retained interests related to the securitizations of commercial mortgage loans were $65.2 million. Key economic assumptions and the sensitivity of the current fair values of residual cash flows were tested to one and two standard deviations from the expected rates. The changes in the fair values at December 31, 2000 as a result of these assumptions were not significant.

RESIDENTIAL MORTGAGE LOANS

During 2000 and 1999, the Company sold residential mortgage loans in securitization transactions. In those securitizations, the Company retained servicing responsibilities and subordinated interests. The Company receives annual servicing fees approximating 0.4 percent of the outstanding balance and rights to future cash flows arising after

4. SECURITIZATION TRANSACTIONS -- (CONTINUED)

the investors have received the return for which they have contracted. The investors have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's retained interests are subordinate to the investor's interests. Their value is subject to prepayment and interest rate risks on the transferred assets.

In 2000, the Company recognized pretax gains of $9.4 million on the securitization of residential mortgage loans.

The key economic assumptions used in determining the fair value of mortgage servicing rights at the date of securitization resulting from securitizations completed in 2000 were as follows:

Weighted average life (years)	6.87
Prepayment speed	11.81%
Static yield to maturity discount rate	10.74%

Prepayment speed is the constant prepayment rate that results in the weighted average life disclosed above.

At December 31, 2000, key economic assumptions and the sensitivity of the current fair value of the mortgage servicing rights to immediate 10 and 20 percent adverse changes in those assumptions are as follows ($ in millions):

Fair value of retained interests	$1,193.4
Expected weighted average life (in years)	6.7
Prepayment speed	12.43%
Decrease in fair value of 10% adverse change	$ 45.7
Decrease in fair value of 20% adverse charge	$ 87.1
Static yield to maturity discount rate	9.44%
Decrease in fair value of 10% adverse change	$ 73.8
Decrease in fair value of 20% adverse change	$ 147.7

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in the above table, the effect of a variation in a particular assumption on the fair value of the servicing rights is calculated independently without changing any other assumption. In reality, changes in one factor may result in change in another, which might magnify or counteract the sensitivities. For example, changes in prepayment speed estimates could result in changes in the discount rate.

MARGIN LENDING

During 2000 and 1999, the Company sold loans under its margin loan securitization program. In that securitization, the Company retained primary servicing responsibilities and retained subordinated interests. The Company receives servicing fees approximating 0.3 percent of the outstanding balance and rights to future cash flows arising after investors in the trust have received a contracted return. The Company's retained interests are subordinated to investors' interests. Retained interests equate to 7% of the outstanding loan balances, of which the Company may earn a return of 1.5% to 2.0% over the Australian 30 day Bank Bill swap rate. The investors and the securitization trusts have no recourse to the Company's other assets for failure of debtors to pay when due. The value of the Company's retained interests is subject to market risk and all positions are primarily hedged. No gains or losses on the transaction have been realized to date.

The fair values of the retained interests, $43.7 million at December 31, 2000, are based upon the Company's relative ownership percentage of the outstanding loan balances. At December 31, 2000, the Company utilized the present value of expected future cash flows as a valuation technique to assess the sensitivity of the fair values of retained interests. Key economic assumptions used in measuring the retained interests included interest margin, credit losses, terminations and discount rates and the resulting changes to the fair values were not significant.

The table below summarizes cash flows received from and paid to securitization trusts for the year ended December 31, 2000 (in millions):

Proceeds from new securitizations	$9,658.2
Proceeds from advances on margin loans previously securitized	16.1
Servicing fees received	239.3
Other cash flows received on retained interests	42.8

5. DERIVATIVES HELD OR ISSUED FOR PURPOSES OTHER THAN TRADING

The Company uses exchange-traded interest rate futures and mortgage-backed securities forwards to hedge against interest rate risks. The Company attempts to match the timing of when interest rates are committed on insurance products and on new investments. However, timing differences do occur and can expose the Company to fluctuating interest rates. Interest rate futures and mortgage-backed securities forwards are used to minimize these risks. In these contracts, the Company is subject to the risk that the counterparties will fail to perform and to the risks associated with changes in the value of the underlying securities; however, such changes in value generally are offset by opposite changes in the value of the hedged items. Futures contracts are marked to market and settled daily, which minimizes the counterparty risk. The notional amounts of futures contracts represent the extent of the Company's involvement.

The Company uses interest rate swaps to more closely match the interest rate characteristics of its assets with those of its liabilities. Swaps are used in asset and liability management to modify duration and match cash flows. Occasionally, the Company will sell a callable investment-type contract and may use interest rate swaptions or similar instruments to transform the callable liability into a fixed term liability. In addition, the Company may sell an investment-type contract with attributes tied to market indices in which case the Company uses a call option to transform the liability into a fixed rate liability. The Company's current credit exposure on swaps is limited to the value of interest rate swaps that have become favorable to the Company. The average unexpired terms of the swaps were approximately four years at December 31, 2000 and five years at December 31, 1999. The net amount payable or receivable from interest rate swaps is accrued as an adjustment to interest income. The Company's interest rate swap agreements include cross-default provisions when two or more swaps are transacted with a given counterparty.

The Company enters into currency exchange swap agreements to convert both principal and interest payments of certain foreign denominated fixed rate assets and liabilities into U.S. dollar denominated instruments to eliminate the exposure to future currency volatility on those items. At December 31, 2000, the Company had various foreign currency exchange agreements with maturities ranging from 2001 to 2019. At December 31, 1999, such maturities ranged from 2000 to 2018. The average unexpired term of the swaps was approximately five years at December 31, 2000 and six years at December 31, 1999.

The Company manages the risk on its commercial mortgage loan pipeline by buying and selling mortgage-backed securities in the forward markets, interest rate swaps, interest rate futures, and treasury rate guarantees. Such futures contracts are marked to market and settled daily.

The Company manages risk on its residential mortgage loan pipeline by buying and selling mortgage-backed securities in the forward markets, over-the-counter options on mortgage-backed securities, U.S. Treasury futures contracts and options on Treasury futures contracts. The Company entered into mandatory forward, option and futures contracts to reduce interest rate risk on certain mortgage loans held for sale and other commitments. The forward contracts provide for the delivery of securities at a specified future date at a specified price or yield. In the event the counterparty is unable to meet its contractual obligations, the Company may be exposed to the risk of selling mortgage loans at prevailing market prices. The effect of these contracts was considered in the lower of cost or market calculation of mortgage loans held for sale.

The Company has committed to originate approximately $695.2 million and $372.0 million of residential mortgage loans at December 31, 2000 and 1999, respectively, subject to borrowers meeting the Company's underwriting guidelines. These commitments call for the Company to fund such loans at a future date with a specified rate at a specified price. Because the borrowers are not obligated to close the loans, the Company is exposed to risks that it may not have sufficient mortgage loans to deliver to its mandatory forward contracts and, thus, would be obligated to purchase mortgage loans at prevailing market rates to meet such commitments. Conversely, the Company is exposed to the risk that more loans than expected will close, and the loans would then be sold at current market prices.

The Company uses interest rate floors, futures contracts and options on futures contracts in hedging a portion of its portfolio of mortgage servicing rights from prepayment risk associated with changes in interest rates. The floors and contracts provide for the receipt of payments when interest rates are below predetermined interest rate levels. The premiums paid for floors are included in other assets in the Company's consolidated statements of financial position.

With regard to its international operations, the Company attempts to conduct much of its business in the functional currency of the country of operation. At times, the Company is unable to do so and it uses foreign currency forwards, foreign currency swaps and interest rate swaps to hedge the resulting currency risk.

5. DERIVATIVES HELD OR ISSUED FOR PURPOSES OTHER THAN TRADING -- (CONTINUED)

The notional amounts and credit exposure of the Company's derivative financial instruments by type are as follows (in millions):

	DECEMBER 31,	
	2000	1999
NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS WITH REGARD TO UNITED STATES OPERATIONS		
Foreign currency swaps	$ 2,745.0	$ 1,571.5
Interest rate floors	2,450.0	5,550.0
Interest rate swaps	2,391.5	1,298.5
Mortgage-backed forwards and options	1,898.3	1,546.7
Swaptions	697.7	469.7
Call options	30.0	30.0
U.S. Treasury futures	183.2	287.6
Currency forwards	39.4	13.0
Treasury rate guarantees	60.0	--
	10,495.1	10,767.0
NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS WITH REGARD TO INTERNATIONAL OPERATIONS		
Foreign currency swaps	665.0	670.0
Interest rate swaps	665.0	665.0
Currency forwards	380.0	380.0
	1,710.0	1,715.0
Total notional amounts at end of year	$12,205.1	$12,482.0
CREDIT EXPOSURE OF DERIVATIVE INSTRUMENTS WITH REGARD TO UNITED STATES OPERATIONS		
Foreign currency swaps	$ 45.3	$ 69.2
Interest rate floors	20.0	15.1
Interest rate swaps	14.1	21.6
Mortgage-backed forwards and options	--	6.0
Swaptions	11.8	8.7
Call options	12.3	19.0
Currency forwards	5.5	--
	109.0	139.6
CREDIT EXPOSURE OF DERIVATIVE INSTRUMENTS WITH REGARD TO INTERNATIONAL OPERATIONS		
Foreign currency swaps	28.4	14.8
Interest rate swaps	39.1	--
Currency forwards	26.2	--
	93.7	14.8
Total credit exposure at end of year	$ 202.7	$ 154.4

6. CLOSED BLOCK

Summarized financial information of the Closed Block is as follows (in millions):

	DECEMBER 31,	
	2000	1999
ASSETS		
Fixed maturities, available-for-sale	$2,182.2	$1,781.7
Mortgage loans	919.4	1,035.9
Policy loans	770.0	752.1
Other investments	1.3	1.2
Total investments	3,872.9	3,570.9
Cash and cash equivalents	22.7	23.9
Accrued investment income	72.4	62.9
Deferred policy acquisition costs	524.7	639.1
Premiums due and other receivables	14.7	20.6
	$4,507.4	$4,317.4
LIABILITIES		
Future policy benefits and claims	$5,032.4	$4,864.3
Other policyholder funds	406.9	405.8
Other liabilities	108.5	124.5
	$5,547.8	$5,394.6

	YEAR ENDED DECEMBER 31,	
	2000	1999
REVENUES AND EXPENSES		
Premiums and other considerations	$ 752.5	$ 764.4
Net investment income	289.9	269.3
Other income (expense)	(5.0)	(2.0)
Benefits, claims and settlement expenses	(601.2)	(614.5)
Dividends to policyholders	(307.7)	(295.9)
Operating expenses	(77.8)	(110.6)
Contribution from Closed Block (before income taxes)	$ 50.7	$ 10.7

As described in Note 1, the formation of the closed block required an actuarial calculation including expectations of future earnings related to policies in the closed block. Subsequent to formation, cumulative actual earnings in excess of cumulative expected earnings (which are not revised in future periods) are required to be recorded as a policyholder dividend obligation. From date of formation through December 31, 2000, cumulative actual earnings have been less than cumulative expected earnings, and the resulting negative policyholder dividend obligation balance has not been recognized.

7. DEFERRED POLICY ACQUISITION COSTS

Policy acquisition costs deferred and amortized in 2000, 1999 and 1998 are as follows (in millions):

	DECEMBER 31,		
	2000	1999	1998
Balance at beginning of year	$1,430.9	$1,104.7	$1,057.5
Cost deferred during the year	263.6	253.8	229.1
Amortized to expense during the year	(238.6)	(173.7)	(219.0)
Effect of unrealized (gains) losses	(122.6)	246.1	37.1
Balance at end of year	$1,333.3	$1,430.9	$1,104.7

8. INSURANCE LIABILITIES

Major components of contractholder funds in the consolidated statements of financial position, are summarized as follows (in millions):

	DECEMBER 31,	
	2000	1999
Liabilities for investment-type contracts:		
Guaranteed investment contracts	$14,779.6	$15,935.5
U.S. funding agreements	772.1	742.9
International funding agreements backing medium-term notes	2,475.3	1,139.0
Other investment-type contracts	2,537.0	3,117.1
Total liabilities for investment-type contracts	20,564.0	20,934.5
Liabilities for individual annuities	2,442.7	2,522.3
Universal life and other reserves	1,293.5	1,063.0
Total contractholder funds	$24,300.2	$24,519.8

The Company's guaranteed investment contracts and funding agreements contain provisions limiting early surrenders, including penalties for early surrenders and minimum notice requirements. Put provisions give customers the option to terminate a contract prior to maturity, provided they give us a minimum notice period.

The following table presents GAAP reserves for guaranteed investment contracts and funding agreements by withdrawal provisions (in millions):

	DECEMBER 31, 2000	
	GUARANTEED INVESTMENT CONTRACTS	FUNDING AGREEMENTS
Less than 30 days notice	$ --	$ --
30 to 89 days notice	284.6	100.6
90 to 180 days notice	456.8	226.2
More than 180 days notice	--	150.9
No active put provision*	426.7	--
No put provision	13,611.5	2,769.7
Total	$14,779.6	$3,247.4

- ---

* Contracts under an initial lock-out period, but which will become puttable with 90 days notice at some time in the future.

Funding agreements are issued to non-qualified institutional investors both in domestic and international markets. In late 1998, the Company established a $2.0 billion program, which was expanded to $4.0 billion in 2000, under which an offshore special purpose entity was created to issue nonrecourse medium-term notes. Under the program, the proceeds of each note series issuance are used to purchase a funding agreement from the Company, with the funding agreement so purchased then used to secure that particular series of notes. The payment terms of any particular series of notes match the payment terms of the funding agreement that secures that series. Claims for principal and interest under those international funding agreements are afforded equal priority to claims of life insurance and annuity policyholders under insolvency provisions of Iowa Insurance Laws. During 1999, the Company began issuing international funding agreements to the offshore special purpose vehicle under that program. The offshore special purpose vehicle issued medium-term notes to investors in Europe, Asia and Australia. In general, the medium-term note funding agreements do not give the contractholder the right to terminate prior to contractually stated maturity dates, absent the existence of certain circumstances which are largely within the Company's control. The special purpose entity is consolidated in the Company's financial statements. The medium-term notes issued by the special purpose entity are reported with contractholder funds liabilities in the Company's consolidated statement of financial position. At December 31, 2000, the contractual maturities were 2002 -- $164.3 million; 2003 -- $476.6 million; 2004 -- $424.9 million; and thereafter -- $1,409.5 million.

In February 2001, the Company agreed to issue up to $3.0 billion of funding agreements under another program to support the prospective issuance by an unaffiliated entity of medium-term notes in both domestic and international markets. The unaffiliated entity will not be consolidated in the Company's financial statements. The funding agreements

8. INSURANCE LIABILITIES -- (CONTINUED)

issued to the unaffiliated entity will be reported as contractholder funds liabilities in the Company's consolidated statement of financial position.

Activity in the liability for unpaid accident and health claims, which is included with future policy benefits and claims in the consolidated statements of financial position, is summarized as follows (in millions):

	DECEMBER 31,		
	2000	1999	1998
Balance at beginning of year	$ 721.7	$ 641.4	$ 770.3
Incurred:			
Current year	1,788.1	1,872.2	1,921.8
Prior years	(17.8)	(6.2)	(13.8)
Total incurred	1,770.3	1,866.0	1,908.0
Reclassification for subsidiary merger (see Note 2)	--	--	154.9
Payments:			
Current year	1,447.3	1,466.3	1,523.1
Prior years	339.7	319.4	358.9
Total payments	1,787.0	1,785.7	2,036.9
Balance at end of year:			
Current year	340.8	405.9	348.7
Prior years	364.2	315.8	292.7
Total balance at end of year	$ 705.0	$ 721.7	$ 641.4

The activity summary in the liability for unpaid accident and health claims shows a decrease of $17.8 million, $6.2 million and $13.8 million to the December 31, 1999, 1998 and 1997 liability for unpaid accident and health claims, respectively, arising in prior years. Such liability adjustments, which affected current operations during 2000, 1999 and 1998, respectively, resulted from developed claims for prior years being different than were anticipated when the liabilities for unpaid accident and health claims were originally estimated. These trends have been considered in establishing the current year liability for unpaid accident and health claims.

9. DEBT

SHORT-TERM DEBT

Short-term debt consists primarily of commercial paper and outstanding balances on credit facilities with various banks. At December 31, 2000, the Company and certain subsidiaries had credit facilities with various banks in an aggregate amount of $1.7 billion. The credit facilities may be used for general corporate purposes and also to provide backup for the Company's commercial paper programs.

The components of short-term debt as of December 31, 2000 and 1999 are as follows (in millions):

	DECEMBER 31,	
	2000	1999
Commercial paper	$ 29.9	$198.5
Other recourse short-term debt	16.6	100.0
Non-recourse short-term debt	413.0	248.8
Total short-term debt	$459.5	$547.3

9. DEBT -- (CONTINUED)

LONG-TERM DEBT

The components of long-term debt as of December 31, 2000 and December 31, 1999 are as follows (in millions):

	DECEMBER 31,	
	2000	1999
7.95% notes payable, due 2004	$ 199.3	$ 198.6
8.2% notes payable, due 2009	464.9	460.5
7.875% surplus notes payable, due 2024	198.9	199.0
8% surplus notes payable, due 2044	99.1	98.8
Non-recourse mortgages and notes payable	149.8	335.2
Other mortgages and notes payable	224.5	200.8
Total long-term debt	$1,336.5	$1,492.9

The amounts included above are net of the discount and direct costs associated with issuing these notes which are being amortized to expense over their respective terms using the interest method.

On August 25, 1999, Principal Financial Group (Australia) Holdings Pty Limited, a wholly-owned subsidiary of the Company, issued $665.0 million of unsecured redeemable long-term debt ($200.0 million of 7.95% notes due August 15, 2004 and $465.0 million in 8.2% notes due August 15, 2009). Interest on the notes is payable semiannually on February 15 and August 15 of each year, commencing February 15, 2000. Principal Financial Group (Australia) Holdings Pty Limited used the net proceeds from the notes to partially fund the purchase of the outstanding stock of several companies affiliated with Bankers Trust Australia Group (see Note 2).

On March 10, 1994, Principal Life issued $300.0 million of surplus notes, including $200.0 million due March 1, 2024 at a 7.875% annual interest rate and the remaining $100.0 million due March 1, 2044 at an 8% annual interest rate. No affiliates of the Company hold any portion of the notes. Each payment of interest and principal on the notes, however, may be made only with the prior approval of the Commissioner of Insurance of the State of Iowa (the "Commissioner") and only to the extent that Principal Life has sufficient surplus earnings to make such payments. For each of the years ended December 31, 2000, 1999 and 1998, interest of $24.0 million was approved by the Commissioner, paid and charged to expense.

Subject to Commissioner approval, the surplus notes due March 1, 2024 may be redeemed at Principal Life's election on or after March 1, 2004 in whole or in part at a redemption price of approximately 103.6% of par. The approximate 3.6% premium is scheduled to gradually diminish over the following ten years. These surplus notes may then be redeemed on or after March 1, 2014, at a redemption price of 100% of the principal amount plus interest accrued to the date of redemption.

In addition, subject to Commissioner approval, the notes due March 1, 2044 may be redeemed at Principal Life's election on or after March 1, 2014, in whole or in part at a redemption price of approximately 102.3% of par. The approximate 2.3% premium is scheduled to gradually diminish over the following ten years. These notes may be redeemed on or after March 1, 2024, at a redemption price of 100% of the principal amount plus interest accrued to the date of redemption.

The mortgages and other notes payable are financings for real estate developments. The Company has obtained loans with various lenders to finance these developments. Outstanding principal balances as of December 31, 2000 range from $0.5 million to $102.8 million per development with interest rates generally ranging from 6.9% to 8.6%. Outstanding principal balances as of December 31, 1999 range from $0.6 million to $38.3 million per development with interest rates generally ranging from 6.4% to 9.3%.

At December 31, 2000, future annual maturities of the long-term debt are as follows (in millions):

2001	$ 118.9
2002	94.6
2003	8.6
2004	202.2
2005	3.0
Thereafter	909.2
Total future maturities of the long-term debt	$1,336.5

9. DEBT -- (CONTINUED)

Cash paid for interest for 2000, 1999 and 1998 was $116.8 million, $127.7 million and $96.9 million, respectively. These amounts include interest paid on taxes during these years.

10. INCOME TAXES

The Company's income tax expense (benefit) is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Current income taxes:			
Federal	$167.7	$ 74.9	$(80.6)
State and foreign	37.3	23.2	10.2
Net realized capital gains	29.6	162.8	106.7
Total current income taxes	234.6	260.9	36.3
Deferred income taxes	5.7	62.6	5.9
Total income taxes	$240.3	$323.5	$ 42.2

The Company's provision for income taxes may not have the customary relationship of taxes to income. Differences between the prevailing corporate income tax rate of 35% times the pre-tax income and the Company's effective tax rate on pre-tax income are generally due to inherent differences between income for financial reporting purposes and income for tax purposes, and the establishment of adequate provisions for any challenges of the tax filings and tax payments to the various taxing jurisdictions. A reconciliation between the corporate income tax rate and the effective tax rate is as follows:

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
Statutory corporate tax rate	35%	35%	35%
Dividends received deduction	(5)	(3)	(4)
Interest exclusion from taxable income	(1)	--	(1)
Resolution of prior year tax issues	--	--	(20)
Other	(1)	(2)	(4)
Effective tax rate	28%	30%	6%

Significant components of the Company's net deferred income taxes are as follows (in millions):

	DECEMBER 31,	
	2000	1999
Deferred income tax assets (liabilities):		
Insurance liabilities	$ 181.1	$ 241.7
Deferred policy acquisition costs	(360.1)	(358.7)
Net unrealized losses (gains) on available for sale securities	(59.1)	91.4
Mortgage loan servicing rights	(206.3)	(209.7)
Other	(6.6)	24.1
	$(451.0)	$(211.2)

At December 31, 2000 and 1999, respectively, the Company's net deferred tax liability is comprised of international net deferred tax assets of $36.4 million and $60.5 million which have been included in other assets and $487.4 million and $271.7 million of U.S. net deferred tax liabilities which have been included in deferred income taxes in the statements of financial position.

The Internal Revenue Service ("the Service") has completed examination of the U.S. consolidated federal income tax returns for 1996 and prior years. The Service has also begun to examine returns for 1997 and 1998. The Company believes that there are adequate defenses against or sufficient provisions for any challenges.

10. INCOME TAXES -- (CONTINUED)

Undistributed earnings of certain foreign subsidiaries are considered indefinitely reinvested by the Company. A tax liability will be recognized when the Company expects distribution of earnings in the form of dividends, sale of the investment or otherwise.

Cash paid for income taxes was $279.3 million in 2000, $251.5 million in 1999 and $308.8 million in 1998.

11. EMPLOYEE AND AGENT BENEFITS

The Company has defined benefit pension plans covering substantially all of its employees and certain agents. The employees and agents are generally first eligible for the pension plans when they reach age 21. The pension benefits are based on the years of service and generally the employee's or agent's average annual compensation during the last five years of employment. Partial benefit accrual of pension benefits is recognized from first eligibility until retirement based on attained service divided by potential service to age 65 with a minimum of 35 years of potential service. The Company's policy is to fund the cost of providing pension benefits in the years that the employees and agents are providing service to the Company. The Company's funding policy is to deposit an amount within the range of GAAP net periodic postretirement cost and the sum of actuarial normal cost and any change in the unfunded accrued liability over a 30-year period as a percentage of compensation.

The Company also provides certain health care, life insurance and long-term care benefits for retired employees. Substantially all employees are first eligible for these postretirement benefits when they reach age 57 and have completed ten years of service with the Company. Partial benefit accrual of these health, life and long-term care benefits is recognized from the employee's date of hire until retirement based on attained service divided by potential service to age 65 with a minimum of 35 years of potential service. The Company's policy is to fund the cost of providing retiree benefits in the years that the employees are providing service to the Company. The Company's funding policy is to deposit the actuarial normal cost and an accrued liability over a 30-year period as a percentage of compensation.

The plans' combined funded status, reconciled to amounts recognized in the consolidated statements of financial position and consolidated statements of operations, is as follows (in millions):

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	DECEMBER 31,			DECEMBER 31,		
	2000	1999	1998	2000	1999	1998
CHANGE IN BENEFIT OBLIGATION						
Benefit obligation at beginning of year	$ (732.5)	$ (827.3)	$(700.5)	$(227.9)	$(206.3)	$(213.7)
Service cost	(35.0)	(42.2)	(33.8)	(10.4)	(10.9)	(12.1)
Interest cost	(57.5)	(55.1)	(49.3)	(19.0)	(14.1)	(15.9)
Actuarial gain (loss)	(2.7)	163.4	(79.7)	3.7	(3.5)	20.5
Benefits paid	30.4	28.7	36.0	--	6.9	14.9
Other	--	--	--	31.8	--	--
Benefit obligation at end of year	$ (797.3)	$ (732.5)	$(827.3)	$(221.8)	$(227.9)	$(206.3)
CHANGE IN PLAN ASSETS						
Fair value of plan assets at beginning of year	$1,059.8	$ 992.9	$ 980.1	$ 345.5	$ 325.7	$ 300.2
Actual return on plan assets	75.1	90.1	23.3	13.7	5.4	14.6
Employer contribution	10.9	5.5	25.5	18.6	21.3	25.8
Benefits paid	(30.4)	(28.7)	(36.0)	(18.0)	(6.9)	(14.9)
Fair value of plan assets at end of year	$1,115.4	$1,059.8	$ 992.9	$ 359.8	$ 345.5	$ 325.7
Funded status	$ 318.1	$ 327.3	$ 165.6	$ 138.0	$ 117.6	$ 119.4
Unrecognized net actuarial gain	(194.2)	(215.5)	(38.2)	(19.4)	(46.3)	(70.3)
Unrecognized prior service cost	9.2	10.9	12.6	(29.8)	--	--
Unamortized transition obligation (asset)	(14.2)	(25.7)	(37.2)	0.3	4.7	7.8
Other assets -- prepaid benefit cost	$ 118.9	$ 97.0	$ 102.8	$ 89.1	$ 76.0	$ 56.9
WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31						
Discount rate	8.00%	8.00%	6.75%	8.00%	8.00%	6.75%

11. EMPLOYEE AND AGENT BENEFITS -- (CONTINUED)

	PENSION BENEFITS			OTHER POSTRETIREMENT BENEFITS		
	DECEMBER 31,			DECEMBER 31,		
	2000	1999	1998	2000	1999	1998
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 35.0	$ 42.2	$ 33.8	$ 10.4	$ 10.9	$ 12.1
Interest cost	57.5	55.1	49.3	19.0	14.1	15.9
Expected return on plan assets	(81.3)	(76.0)	(74.4)	(25.1)	(23.7)	(16.1)
Amortization of prior service cost	1.7	1.7	1.7	--	--	--
Amortization of transition (asset) obligation	(11.5)	(11.5)	(11.5)	2.3	3.7	3.3
Recognized net actuarial loss (gain)	(12.5)	(0.3)	(8.3)	(1.1)	(2.3)	(1.8)
Net periodic benefit cost (income)	$ (11.1)	$ 11.2	$ (9.4)	$ 5.5	$ 2.7	$ 13.4

Effective January 1, 2000, the Company amended the method in determining postretirement health benefit plan and terminated long-term care coverage for participants retiring on and subsequent to July 1, 2000. The result of these amendments decreased the postretirement benefit obligation by $31.8 million and was partially offset by the remaining portion of the original transition obligation.

For 2000, 1999 and 1998, the expected long-term rates of return on plan assets for pension benefits were approximately 5% in each of these years (after estimated income taxes) for those trusts subject to income taxes. For trusts not subject to income taxes, the expected long-term rates of return on plan assets were approximately 8.1% in each of the years 2000, 1999 and 1998. The assumed rate of increase in future compensation levels varies by age for both the qualified and non-qualified pension plans.

For 2000, 1999 and 1998, the expected long-term rates of return on plan assets for other post-retirement benefits were approximately 5% to 5.9% in each of these years (after estimated income taxes) for those trusts subject to income taxes. For trusts not subject to income taxes, the expected long-term rates of return on plan assets were approximately 9.3%, 8.0% and 8.1% for 2000, 1999 and 1998, respectively. These rates of return on plan assets vary by benefit type and employee group.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligations starts at 13.9% in 2000 and declines to an ultimate rate of 6% in 2010. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions):

	1-PERCENTAGE-POINT INCREASE	1-PERCENTAGE-POINT DECREASE
Effect on total of service and interest cost components	$ 7.4	$ (5.5)
Effect on accumulated postretirement benefit obligation	47.7	(38.6)

In addition, the Company has defined contribution plans that are generally available to all employees and agents who are age 21 or older. Eligible participants may contribute up to 20% of their compensation, to a maximum of $10,500 in 2000 and $10,000 in 1999 and 1998. The Company matches the participant's contribution at a 50% contribution rate up to a maximum Company contribution of 3% of the participant's compensation in 2000, and 2% of the participant's compensation in 1999 and 1998. The Company contributed $16.0 million in 2000 and $11.0 million in both 1999 and 1998 to these defined contribution plans.

12. OTHER COMMITMENTS AND CONTINGENCIES

The Company, as a lessor, leases industrial, office, retail and other investment real estate properties under various operating leases. Rental income for all operating leases totaled $292.5 million in 2000, $356.8 million in 1999 and $362.4 million in 1998. At December 31, 2000, future minimum annual rental commitments under these noncancelable operating leases are as follows (in millions):

	HELD FOR SALE	HELD FOR INVESTMENT	TOTAL RENTAL COMMITMENTS
2001	$ 85.4	$ 87.8	$ 173.2
2002	80.4	80.4	160.8
2003	72.5	66.2	138.7
2004	63.9	56.0	119.9
2005	54.2	46.1	100.3
Thereafter	168.2	308.6	476.8
Total future minimum lease receipts	$524.6	$645.1	$1,169.7

The Company, as a lessee, leases office space, data processing equipment, corporate aircraft and office furniture and equipment under various operating leases. Rental expense for all operating leases totaled $66.3 million in 2000, $78.5 million in 1999 and $60.8 million in 1998. At December 31, 2000, future minimum annual rental commitments under these noncancelable operating leases are as follows (in millions):

2001	$ 49.1
2002	40.5
2003	32.3
2004	25.2
2005	16.4
Thereafter	12.1
	175.6
Less future sublease rental income on these noncancelable leases	1.1
Total future minimum lease payments	$174.5

The Company is a plaintiff or defendant in actions arising out of its operations. The Company is, from time to time, also involved in various governmental and administrative proceedings. While the outcome of any pending or future litigation cannot be predicted, management does not believe that any pending litigation will have a material adverse effect on the Company's business, financial condition or results of operations. However, no assurances can be given that such litigation would not materially and adversely affect the Company's business, financial condition or results of operations.

Other companies in the life insurance industry have historically been subject to substantial litigation resulting from claims disputes and other matters. Most recently, such companies have faced extensive claims, including class-action lawsuits, alleging improper life insurance sales practices. Negotiated settlements of such class-action lawsuits have had a material adverse effect on the business, financial condition and results of operations of certain of these companies. Principal Life is currently a defendant in two class-action lawsuits which allege improper sales practices.

In 2000, the Company reached an agreement in principle to settle these two class-action lawsuits alleging improper sales practices. The proposed settlement is subject to court approval and therefore is not yet final. In agreeing to the settlement, the Company specifically denied any wrongdoing. The Company has accrued a loss reserve for its best estimate based on information available. As uncertainties continue to exist in resolving this matter, it is reasonably possible that, as the actual cost of the claims subject to alternative dispute resolution becomes available, the final cost of settlement could exceed the Company's estimate. However, the range of any additional cost related to the settlement cannot presently be reasonably estimated. See Note 16.

The Company is also subject to insurance guaranty laws in the states in which it writes business. These laws provide for assessments against insurance companies for the benefit of policyholders and claimants in the event of insolvency of other insurance companies. The assessments may be partially recovered through a reduction in future premium taxes in some states. The Company believes such assessments in excess of amounts accrued would not materially affect its financial condition or results of operations.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following discussion describes the methods and assumptions utilized by the Company in estimating its fair value disclosures for financial instruments. Certain financial instruments, particularly policyholder liabilities other than investment-type contracts, are excluded from these fair value disclosure requirements. The techniques utilized in estimating the fair values of financial instruments are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Company's business, its value or financial position based on the fair value information of financial instruments presented below. The estimates shown are not necessarily indicative of the amounts that would be realized in a one-time, current market exchange of all of the Company's financial instruments.

The Company defines fair value as the quoted market prices for those instruments that are actively traded in financial markets. In cases where quoted market prices are not available, fair values are estimated using present value or other valuation techniques. The fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows and the credit standing of counterparties. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument.

Fair values of public debt and equity securities have been determined by the Company from public quotations, when available. Private placement securities and other fixed maturities and equity securities are valued by discounting the expected total cash flows. Market rates used are applicable to the yield, credit quality and average maturity of each security.

Fair values of commercial mortgage loans are determined by discounting the expected total cash flows using market rates that are applicable to the yield, credit quality and maturity of each loan. Fair values of residential mortgage loans are determined by a pricing and servicing model using market rates that are applicable to the yield, rate structure, credit quality, size and maturity of each loan.

The fair values for assets classified as policy loans, other investments excluding equity investments in subsidiaries, cash and cash equivalents and accrued investment income in the accompanying consolidated statements of financial position approximate their carrying amounts.

Mortgage servicing rights represent the present value of estimated future net revenues from contractually specified servicing fees. The fair value was estimated with a valuation model using current prepayment speeds and a market discount rate.

The fair values of the Company's reserves and liabilities for investment-type insurance contracts (insurance, annuity and other policy contracts that do not involve significant mortality or morbidity risk and that are only a portion of the policyholder liabilities appearing in the consolidated statements of financial position) are estimated using discounted cash flow analyses (based on current interest rates being offered for similar contracts with maturities consistent with those remaining for the investment-type contracts being valued). The fair values for the Company's insurance contracts (insurance, annuity and other policy contracts that do involve significant mortality or morbidity risk), other than investment-type contracts, are not required to be disclosed. The Company does consider, however, the various insurance and investment risks in choosing investments for both insurance and investment-type contracts.

Fair values for debt issues are estimated using discounted cash flow analysis based on the Company's incremental borrowing rate for similar borrowing arrangements.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS -- (CONTINUED)

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 and 1999, are as follows (in millions):

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets (liabilities)				
Fixed maturities (see Note 3)	$ 26,839.9	$ 26,839.9	$ 23,443.9	$ 23,443.9
Equity securities (see Note 3)	742.9	742.9	864.2	864.2
Mortgage loans	11,492.7	11,741.9	13,332.2	13,200.0
Policy loans	803.6	803.6	780.5	780.5
Other investments	507.5	507.5	253.9	253.9
Cash and cash equivalents	926.6	926.6	569.5	569.5
Accrued investment income	530.8	530.8	472.0	472.0
Mortgage loan servicing rights	1,084.4	1,193.5	1,081.0	1,288.0
Investment-type insurance contracts	(22,818.6)	(22,688.9)	(24,072.5)	(23,322.6)
Short-term debt	(459.5)	(459.5)	(547.3)	(547.3)
Long-term debt	(1,336.5)	(1,343.1)	(1,492.9)	(1,441.4)

14. STATUTORY INSURANCE FINANCIAL INFORMATION

Principal Life, the largest subsidiary (indirect) of Principal Mutual Holding Company, prepares statutory financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Division of the Department of Commerce of the State of Iowa. Currently "prescribed" statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations and general administrative rules. "Permitted" statutory accounting practices encompass all accounting practices not so prescribed. The impact of any permitted accounting practices on statutory surplus is not material. The accounting practices used to prepare statutory financial statements for regulatory filings differ in certain instances from GAAP. Prescribed or permitted statutory accounting practices are used by state insurance departments to regulate the Company.

The NAIC revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual will be effective January 1, 2001. The State of Iowa has adopted the provisions of the revised manual without modification. The revised manual has changed, to some extent, prescribed statutory accounting practices and will result in changes to the accounting practices that Principal Life uses to prepare its statutory-basis financial statements.

The Company has identified the following changes in prescribed statutory accounting practices as those that will have the most significant impact on Principal Life's statutory-basis financial statements:

- Deposit-type funds related to both Principal Life's general account and its separate accounts will no longer be reported in the statutory statement of operations as revenues, but rather will be reported directly to an appropriate policy reserve account, a treatment of deposit-type funds that is similar to that under GAAP. This will have the effect of decreasing total statutory revenues and total statutory expenses of Principal Life, with no effect to statutory net income or statutory surplus.

- Undistributed income from subsidiaries will no longer be reported as a component of statutory net investment income, but rather will be classified as statutory unrealized capital gains and losses. This will have the effect of decreasing Principal Life's total statutory revenues, with a related effect on statutory net income; however, it will have no effect on statutory surplus.

- Deferred income tax assets and/or liabilities will be recognized. This will have the effect of increasing Principal Life's total statutory assets or statutory liabilities to the extent it has such deferred income tax assets or liabilities and will have a corresponding effect on Principal Life's statutory surplus.

Management believes the net impact of these changes to Principal Life's statutory-basis capital and surplus as of January 1, 2001 will not be significant. Insurance regulators, accountants, and the insurance industry continue work to finalize interpretations of the Codification. The ongoing implementation work could cause changes to final interpretations that could ultimately have an adverse effect on Principal Life's statutory surplus or statutory net income.

14. STATUTORY INSURANCE FINANCIAL INFORMATION -- (CONTINUED)

Life/Health insurance companies are subject to certain risk-based capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life/health insurance company is to be determined based on the various risk factors related to it. At December 31, 2000, Principal Life meets the RBC requirements.

Under Iowa law, Principal Life may pay stockholder dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa to pay a stockholder dividend if such a stockholder dividend would exceed certain statutory limitations. The current statutory limitation is the greater of 10% of Principal Life's policyholder surplus as of the preceding year end or the net gain from operations from the previous calendar year. Based on this limitation and 2000 statutory results, Principal Life could pay approximately $760.9 million in stockholder dividends in 2001 without exceeding the statutory limitation.

In 2000, Principal Life notified the Insurance Commissioner of the State of Iowa in advance of all stockholder dividend payments. Total stockholder dividends paid to its parent company in 2000 were $538.8 million.

In 1999, Principal Life notified the Insurance Commissioner of the State of Iowa in advance of all stockholder dividend payments and received approval for an extraordinary stockholder dividend of $250.0 million. Total stockholder dividends paid to its parent company in 1999 were $509.0 million.

In 1998, Principal Life notified the Insurance Commissioner of the State of Iowa in advance of dividend payments. Total stockholder dividends paid to its parent company in 1998 were $140.0 million.

The following summary reconciles the assets and equity at December 31, 2000, 1999 and 1998, and net income for the years ended December 31, 2000, 1999 and 1998, in accordance with statutory reporting practices prescribed or permitted by the Insurance Division of the Department of Commerce of the State of Iowa (Principal Life only) with that reported in these consolidated GAAP financial statements (in millions):

	ASSETS	EQUITY	NET INCOME
DECEMBER 31, 2000			
As reported in accordance with statutory accounting practices -- unconsolidated	$75,573.4	$3,356.4	$ 912.6
Additions (deductions):			
Unrealized gain on fixed maturities available-for-sale	375.3	375.3	--
Other investment adjustments	2,760.2	590.3	(137.7)
Adjustments to insurance reserves and policyholder dividends	(73.9)	(187.0)	26.3
Deferral of policy acquisition costs	1,295.5	1,295.5	8.8
Surplus note reclassification as debt	--	(298.0)	--
Provision for deferred federal income taxes and other tax reclassifications	--	(138.3)	(26.6)
Other -- net	324.5	306.0	(141.8)
As reported in accordance with GAAP -- Principal Life only	80,255.0	5,300.2	641.6
Parent holding company totals	4,002.0	952.3	(21.4)
As reported in the consolidated GAAP financial statements	$84,257.0	$6,252.5	$ 620.2
DECEMBER 31, 1999			
As reported in accordance with statutory accounting practices -- unconsolidated	$76,017.7	$3,151.9	$ 713.7
Additions (deductions):			
Unrealized loss on fixed maturities available-for-sale	(356.8)	(356.8)	--
Other investment adjustments	2,093.3	994.4	9.8
Adjustments to insurance reserves and policyholder dividends	(124.6)	(235.5)	15.1
Deferral of policy acquisition costs	1,409.3	1,409.3	68.3
Surplus note reclassification as debt	--	(297.8)	--
Provision for deferred federal income taxes and other tax reclassifications	--	33.0	18.2
Other -- net	277.1	252.5	(15.4)
As reported in accordance with GAAP -- Principal Life only	79,316.0	4,951.0	809.7
Parent holding company totals	4,516.2	601.9	(67.6)
As reported in the consolidated GAAP financial statements	$83,832.2	$5,552.9	$ 742.1

14. STATUTORY INSURANCE FINANCIAL INFORMATION -- (CONTINUED)

	ASSETS	EQUITY	NET INCOME
DECEMBER 31, 1998			
As reported in accordance with statutory accounting practices -- unconsolidated	$70,096.1	$3,031.5	$ 511.4
Additions (deductions):			
Unrealized gain on fixed maturities available-for-sale	996.9	996.9	--
Other investment adjustments	1,620.7	1,080.9	176.8
Adjustments to insurance reserves and policyholder dividends	(169.5)	(191.6)	(55.8)
Deferral of policy acquisition costs	1,104.7	1,104.7	--
Surplus note reclassification as debt	--	(297.8)	--
Provision for deferred federal income taxes and other tax reclassifications	--	(474.2)	164.9
Other -- net	294.4	219.0	(102.0)
As reported in accordance with GAAP -- Principal Life only	73,943.3	5,469.4	695.3
Parent holding company totals	--	197.8	(2.3)
As reported in the consolidated GAAP financial statements	$73,943.3	$5,667.2	$ 693.0

15. SEGMENT INFORMATION

The Company provides financial products and services through the following segments: U.S. Asset Management and Accumulation, International Asset Management and Accumulation, Life and Health Insurance and Mortgage Banking. In addition, there is a Corporate and Other segment. The segments are managed and reported separately because they provide different products and services, have different strategies or have different markets and distribution channels.

The U.S. Asset Management and Accumulation segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals and provides asset management services to the Company's asset accumulation business, the life and health insurance operations and third-party clients.

The International Asset Management and Accumulation segment provides asset management products and services to retail clients in Australia and institutional clients throughout the world and provides life insurance and retirement and related financial products and services primarily to businesses, their employees and other individuals principally in Australia, Chile, Brazil, New Zealand, Mexico, India, Japan, Argentina, and Hong Kong.

The Life and Health insurance segment provides individual life and disability insurance to the owners and employees of businesses and other individuals in the United States and provides group life and health insurance to businesses in the United States.

The Mortgage Banking segment originates and services residential mortgage loan products for customers primarily in the United States.

The Corporate and Other segment manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate and Other segment primarily reflect financing activities for the Company, income on capital not allocated to other segments, intercompany eliminations, and non-recurring or other income or expenses not allocated to the segments based on review of the nature of such items.

The Company evaluates segment performance on segment operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and non-recurring events and transactions. Net realized capital gains, as adjusted, are net of tax, related changes in the amortization pattern of deferred policy acquisition costs, recognition of front-end fee revenues for sales charges on pension products and services and net realized capital gains credited to customers. Segment operating revenues exclude net realized capital gains and their impact on recognition of front-end fee revenues. Segment operating earnings is determined by adjusting GAAP net income for net realized capital gains and losses and non-recurring items which management believes are not indicative of overall operating trends. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of the Company's results of operations by highlighting earnings attributable to the normal, recurring operations of the business. However, segment operating earnings are not a substitute for net income determined in accordance with GAAP.

In 2000, the Company excluded $101.0 million of non-recurring items, net of tax, from net income for the presentation of operating earnings. The non-recurring items included the negative effects of (a) a loss contingency

15. SEGMENT INFORMATION -- (CONTINUED)

reserve established for litigation ($93.8 million) and (b) expenses related to the development of a plan of demutualization ($7.2 million).

In 1998, the Company excluded $104.8 million of non-recurring items, net of tax, from net income for the presentation of operating earnings. The non-recurring items included: (1) the positive effects of (a) Principal Life's release of tax reserves and related accrued interest ($164.4 million) and (b) accounting changes by the Company's international operations ($13.3 million) and (2) the negative effects of (a) expenses related to the Company's corporate structure change to a mutual insurance holding company and related adjustments for changes in amortization assumptions for deferred policy acquisition costs ($27.4 million) and (b) a contribution related to permanent endowment of the Principal Financial Group Foundation ($45.5 million).

The accounting policies of the segments are similar to those as described in Note 1, with the exception of capital allocation. The Company allocates capital to its segments based upon an internal capital model that allows management to more effectively manage the Company's capital.

The following table summarizes selected financial information by segment as of, or for the year ended, December 31 and reconciles segment totals to those reported in the consolidated financial statements (in millions):

	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER	CONSOLIDATED
2000						
Revenues						
Operating revenues	$ 3,533.9	$ 630.7	$ 4,122.6	$ 359.8	$ 97.1	$ 8,744.1
Net realized capital gains (losses)	(53.8)	2.8	70.8	--	120.1	139.9
Plus (less) recognition of front-end fee revenues	0.9	--	--	--	--	0.9
Revenues	$ 3,481.0	$ 633.5	$ 4,193.4	$ 359.8	$ 217.2	$ 8,884.9
Net income:						
Operating earnings (loss)	$ 356.6	$ (8.5)	$ 162.3	$ 50.0	$ 67.7	$ 628.1
Net realized capital gains (losses), as adjusted	(35.9)	1.4	47.3	--	80.3	93.1
Non-recurring items	--	--	--	--	(101.0)	(101.0)
Net income (loss)	$ 320.7	$ (7.1)	$ 209.6	$ 50.0	$ 47.0	$ 620.2
Assets	$65,795.9	$5,525.9	$10,421.1	$1,556.3	$ 957.8	$84,257.0
Other segment data:						
Revenues from external customers	$ 3,399.1	$ 632.4	$ 4,196.9	$ 359.8	$ 296.7	$ 8,884.9
Intersegment revenues	81.9	1.1	(3.5)	--	(79.5)	--
Interest expense	--	--	--	--	78.4	78.4
Income tax expense (benefit)	102.0	6.1	104.7	27.0	0.5	240.3
Amortization of goodwill and other intangibles	1.0	47.9	7.7	0.8	(1.1)	56.3
1999						
Revenues:						
Operating revenues	$ 3,472.6	$ 379.6	$ 3,985.5	$ 398.3	$ 61.9	$ 8,297.9
Net realized capital gains (losses)	(58.0)	8.7	16.0	--	437.8	404.5
Plus (less) recognition of front-end fee revenues	(1.0)	--	--	--	--	(1.0)
Revenues	$ 3,413.6	$ 388.3	$ 4,001.5	$ 398.3	$ 499.7	$ 8,701.4

15. SEGMENT INFORMATION -- (CONTINUED)

	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER	CONSOLIDATED
1999 (CONTINUED)						
Net income:						
Operating earnings (loss)	$ 356.6	$ (38.4)	$ 90.7	$ 56.8	$ 9.5	$ 475.2
Net realized capital gains (losses), as adjusted	(35.4)	7.7	10.1	--	284.5	266.9
Non-recurring items	--	--	--	--	--	--
Net income (loss)	$ 321.2	$ (30.7)	$ 100.8	$ 56.8	$ 294.0	$ 742.1
Assets	$65,096.4	$5,926.8	$ 9,949.8	$1,737.7	$1,121.5	$83,832.2
Other segment data:						
Revenues from external customers	$ 3,338.7	$ 388.3	$ 4,007.9	$ 398.3	$ 568.2	$ 8,701.4
Intersegment revenues	74.9	--	(6.4)	--	(68.5)	--
Interest expense	--	0.7	--	--	47.1	47.8
Income tax expense (benefit)	126.4	(3.2)	18.1	30.7	151.5	323.5
Amortization of goodwill and other intangibles	1.0	16.0	4.0	0.8	(1.6)	20.2
1998						
Revenues:						
Operating revenues	$ 2,933.1	$ 223.1	$ 3,893.1	$ 340.6	$ 342.5	$ 7,732.4
Net realized capital gains (losses)	48.8	13.5	(1.3)		404.8	465.8
Plus (less) recognition of front-end fee revenues	(1.3)	--	--	--	--	(1.3)
Revenues	$ 2,980.6	$ 236.6	$ 3,891.8	$ 340.6	$ 747.3	$ 8,196.9
Net income:						
Operating earnings (loss)	$ 238.4	$ (35.4)	$ 50.0	$ 58.8	$ (44.3)	$ 267.5
Net realized capital gains (losses), as adjusted	14.7	12.0	1.9	--	292.1	320.7
Non-recurring items	23.9	13.3	60.1	--	7.5	104.8
Net income (loss)	$ 277.0	$ (10.1)	$ 112.0	$ 58.8	$ 255.3	$ 693.0
Assets	$58,701.5	$1,239.4	$ 9,116.1	$1,810.4	$3,075.9	$73,943.3
Other segment data:						
Revenues from external customers	$ 2,980.6	$ 236.6	$ 3,891.8	$ 340.6	$ 747.3	$ 8,196.9
Intersegment revenues	--	--	--	--	--	--
Interest expense	--	--	--	--	27.4	27.4
Income tax expense (benefit)	78.7	(10.5)	(26.6)	31.6	(31.0)	42.2
Amortization of goodwill and other intangibles	18.1	6.9	18.1	4.0	5.5	52.6

15. SEGMENT INFORMATION -- (CONTINUED)

The Company operates in the United States and in selected markets internationally (including Australia, Chile, Brazil, New Zealand, Mexico, India, Japan, Argentina, Spain and Hong Kong). The following table summarizes selected financial information by geographic location as of or for the year ended December 31 (in millions):

	REVENUES	LONG-LIVED ASSETS	ASSETS	NET INCOME (LOSS)
2000				
United States	$8,251.4	$ 517.7	$78,731.1	$627.3
International	633.5	1,365.2	5,525.9	(7.1)
Total	$8,884.9	$1,882.9	$84,257.0	$620.2
1999				
United States	$8,313.1	$ 505.0	$77,905.4	$772.8
International	388.3	1,474.2	5,926.8	(30.7)
Total	$8,701.4	$1,979.2	$83,832.2	$742.1
1998				
United States	$7,960.3	$ 493.6	$72,703.9	$703.1
International	236.6	116.9	1,239.4	(10.1)
Total	$8,196.9	$ 610.5	$73,943.3	$693.0

Long-lived assets include property and equipment and goodwill and other intangibles.

The Corporate and Other segment includes an equity ownership interest in Coventry Health Care, Inc. The ownership interest was initiated through a transaction in 1998, described further in Note 2. In September 2000, the Company sold a portion of its equity ownership position, which reduced its ownership to approximately 25% and resulted in a realized capital gain of $13.9 million, net of tax. The Corporate and Other segment's equity in earnings of Coventry Health Care, Inc., which was included in net investment income, was $20.0 million and $19.1 million for the years ended December 31, 2000 and 1999, respectively. The investment in Coventry Health Care, Inc. was $122.9 million and $179.3 million at December 31, 2000 and 1999, respectively. The Corporate and Other segment also include consolidating and intersegment eliminations.

The Company's operations are not materially dependent on one or a few customers, brokers or agents, and revenues, assets and operating earnings are attributed to geographic location based on the country of domicile sales originate from.

16. SUBSEQUENT EVENTS

PLAN OF DEMUTUALIZATION

On March 31, 2001, the Company's Board of Directors adopted a plan to convert Principal Mutual Holding Company from a mutual insurance holding company to a stock company. Adoption of the plan authorizes management to implement the plan for demutualization of the Company. Upon demutualization, the membership interests of Principal Life's policyholders in Principal Mutual Holding Company will be extinguished, and eligible policyholders will receive compensation in exchange for the extinguishment of their membership interests. Their compensation will be in the form of common stock, cash or policy credits, depending upon the type of policy or policyholder.

Under Iowa insurance law, the plan also requires the approval of policyholders and the Insurance Commissioner of the State of Iowa. During 2001, the Company expects to file the plan with the Insurance Commissioner of the State of Iowa and to mail the proposed plan and related materials to policyholders eligible to vote.

LITIGATION

In April 2001, the proposed settlement of the class-action lawsuit alleging improper sales practices received court approval. In agreeing to the settlement, the Company specifically denied any wrongdoing. The Company has accrued a loss reserve for its best estimate based on information available. As uncertainties continue to exist in resolving this matter, it is reasonably possible that, as the actual cost of the claims subject to alternative dispute resolution becomes available, the final cost of settlement could exceed the Company's estimate. The range of any additional cost related to the settlement cannot be presently estimated, however the Company believes the settlement will not have a material impact on its business, financial condition or results of operations.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(IN MILLIONS)	
REVENUES		
Premiums and other considerations	$1,064.2	$1,014.4
Fees and other revenues	413.0	396.4
Net investment income	839.7	789.5
Net realized capital gains (losses)	(80.9)	70.3
Total revenues	2,236.0	2,270.6
EXPENSES		
Benefits, claims and settlement expenses	1,391.9	1,319.6
Dividends to policyholders	81.0	75.4
Operating expenses	622.7	593.2
Total expenses	2,095.6	1,988.2
Income before income taxes and cumulative effect of accounting change	140.4	282.4
Income taxes	24.4	89.3
Income before cumulative effect of accounting change	116.0	193.1
Cumulative effect of accounting change, net of related income taxes	(10.7)	--
Net income	$ 105.3	$ 193.1

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

	MARCH 31, 2001	DECEMBER 31, 2000
	(IN MILLIONS)	
ASSETS		
Fixed maturities, available-for-sale	$29,110.8	$26,839.9
Equity securities, available-for-sale	618.6	742.9
Mortgage loans	11,378.6	11,492.7
Real estate	1,186.1	1,400.5
Policy loans	819.3	803.6
Other investments	889.2	811.0
Total investments	44,002.6	42,090.6
Cash and cash equivalents	525.6	926.6
Accrued investment income	516.7	530.8
Premiums due and other receivables	335.2	357.8
Deferred policy acquisition costs	1,268.9	1,333.3
Property and equipment	500.9	507.0
Goodwill and other intangibles	1,225.5	1,375.9
Mortgage loan servicing rights	1,164.0	1,084.4
Separate account assets	31,638.8	34,916.2
Other assets	1,234.2	1,134.4
Total assets	$82,412.4	$84,257.0
LIABILITIES		
Contractholder funds	$24,919.0	$24,300.2
Future policy benefits and claims	13,252.5	13,198.1
Other policyholder funds	592.2	597.4
Short-term debt	550.1	459.5
Long-term debt	1,294.1	1,336.5
Income taxes currently payable	149.3	108.4
Deferred income taxes	587.3	487.4
Separate account liabilities	31,638.8	34,916.2
Other liabilities	2,988.3	2,600.8
Total liabilities	75,971.6	78,004.5
EQUITY		
Retained earnings	6,417.8	6,312.5
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities	319.9	129.9
Net foreign currency translation adjustment	(296.9)	(189.9)
Total equity	6,440.8	6,252.5
Total liabilities and equity	$82,412.4	$84,257.0

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	RETAINED EARNINGS	NET UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE SECURITIES	NET FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL EQUITY
BALANCES AT JANUARY 1, 2000	$5,692.3	$ (79.1)	$ (60.3)	$5,552.9
Comprehensive income:				
Net income	193.1	--	--	193.1
Net change in unrealized gains and losses on fixed maturities, available-for-sale	--	98.0	--	98.0
Net change in unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	--	(91.4)	--	(91.4)
Adjustments for assumed changes in amortization pattern:				
Deferred policy acquisition costs	--	(9.5)	--	(9.5)
Unearned revenue reserves	--	2.6	--	2.6
Provision for deferred income tax benefit	--	(7.6)	--	(7.6)
Change in net foreign currency translation adjustment	--	--	(37.9)	(37.9)
Comprehensive income				147.3
BALANCES AT MARCH 31, 2000	$5,885.4	$ (87.0)	$ (98.2)	$5,700.2
BALANCES AT JANUARY 1, 2001	$6,312.5	$ 129.9	$(189.9)	$6,252.5
Comprehensive income:				
Net income	105.3	--	--	105.3
Net change in unrealized gains and losses on fixed maturities, available-for-sale	--	387.1	--	387.1
Net change in unrealized gains and losses on equity securities, available-for-sale, including seed money in separate accounts	--	(23.9)	--	(23.9)
Adjustments for assumed changes in amortization pattern:				
Deferred policy acquisition costs	--	(67.1)	--	(67.1)
Unearned revenue reserves	--	5.2	--	5.2
Provision for deferred income tax benefit	--	(108.2)	--	(108.2)
Change in net foreign currency translation adjustment	--	--	(95.9)	(95.9)
Cumulative effect of accounting change, net of related income taxes		(3.1)	(11.1)	(14.2)
Comprehensive income				188.3
BALANCES AT MARCH 31, 2001	$6,417.8	$ 319.9	$(296.9)	$6,440.8

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING ACTIVITIES:		
Net income	$ 105.3	$ 193.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change, net of related income taxes	10.7	--
Amortization of deferred policy acquisition costs	68.4	47.7
Additions to deferred policy acquisition costs	(71.4)	(75.4)
Accrued investment income	11.6	22.8
Premiums due and other receivables	14.3	50.1
Contractholder and policyowner liabilities and dividends	227.2	318.5
Current and deferred income taxes	36.3	53.2
Net realized capital (gains) losses	80.9	(70.3)
Depreciation and Amortization expense	31.5	29.0
Amortization and impairment/recovery of Mortgage Servicing Rights	52.9	38.8
Other	100.6	(357.1)
Net cash provided by operating activities	668.3	250.4
INVESTING ACTIVITIES:		
Available-for-Sale Securities:		
Purchases	(4,470.0)	(3,458.0)
Sales	1,809.6	2,445.1
Maturities	710.0	633.8
Mortgage loans acquired or originated	(5,592.2)	(1,794.0)
Mortgage loans sold or repaid	5,715.6	1,715.6
Net change in mortgage servicing rights	(94.5)	(6.4)
Real Estate Acquired	(99.1)	(83.7)
Real Estate sold	329.4	117.3
Net change in Property and equipment	2.5	7.7
Net proceeds from sale of subsidiaries	(13.5)	--
Purchases of interests in subsidiaries, net of cash acquired	(4.2)	25.7
Net change in other investments	(44.0)	(103.5)
Net cash used in investing activities	(1,750.4)	(500.4)
FINANCING ACTIVITIES:		
Issuance of debt	27.8	44.6
Principal repayments of debt	(70.1)	(24.3)
Proceeds of short-term borrowings	2,005.6	249.4
Repayment of short-term borrowings	(1,914.9)	(30.5)
Investment contract deposits	1,844.2	1,123.9
Investment contract withdrawals	(1,211.5)	(1,475.6)
Net cash provided by (used in) financing activities	681.1	(112.5)
Net decrease in cash and cash equivalents	(401.0)	(362.5)
Cash and cash equivalents at beginning of year	926.6	569.5
Cash and cash equivalents at end of period	$ 525.6	$ 207.0

See accompanying notes.

PRINCIPAL MUTUAL HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of Principal Mutual Holding Company and its consolidated subsidiaries ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. These interim financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2000. The accompanying consolidated statement of financial position at December 31, 2000 has been derived from the audited consolidated statement of financial position.

2. ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). In June 1999, Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133 was issued deferring the effective date of SFAS 133 by one year. In June 2000, the FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities on amendment of FASB Statement No. 133, which amended the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

The Company's derivatives are generally held for purposes other than trading and are primarily used to hedge or reduce exposure to interest rate and foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. Additionally, derivatives are used to change the characteristics of the Company's asset/liability mix consistent with the Company's risk management activities.

The Company's risk of loss is typically limited to the fair value of its derivative instruments and not to the notional or contractual amounts of these derivatives. Risk arises from changes in the fair value of the underlying instruments. The Company is also exposed to credit losses in the event of nonperformance of the counterparties. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits.

The net interest effect of interest rate and currency swap transactions is recorded as an adjustment to net investment income or interest expense, as appropriate, over the periods covered by the agreements. The cost of other derivative contracts is amortized over the life of the contracts and classified with the results of the underlying hedged item. Futures contracts and mortgage-backed forwards are used to hedge anticipated transactions. Futures contracts are marked to market value and settled daily. However, changes in the market value of such contracts have not qualified for inclusion in the measurement of subsequent transactions or represent hedges of items reported at fair value. Accordingly, such changes in market value are reported in net income in the period of change.

Hedge accounting is used for derivatives that are specifically designated in advance as hedges and that reduce the Company's exposure to an indicated risk by having a high correlation between changes in the value of the derivatives and the items being hedged at both the inception of the hedge and throughout the hedge period. Should such criteria not be met or if the hedged items are sold, terminated or matured, the changes in value of the derivatives are included in net income.

The Company designates all derivatives into two types: hedges of fair value exposure and hedges of cash flow exposure. Hedges of fair value exposure are entered into in order to hedge the fair value of a recognized asset or liability. Hedges of cash flow exposure are entered into to hedge the variability of cash flows to be received or paid related to certain assets or liabilities. On the date the derivative contract is entered, the Company designates the contract as either a fair value or cash flow hedge. Changes in fair values of derivatives designated as effective and that qualify as fair value hedges are recognized in earnings as offsets to the changes in fair value of the hedged assets and liabilities. Changes in fair values of derivatives designated as effective and that qualify as cash flow hedges are deferred and recognized as a component of accumulated other comprehensive income until the hedged transaction occurs and are then recognized in earnings. Any ineffective portion of hedging a derivative contract's change in fair value is recognized in earnings.

During the three months ended March 31, 2001, the Company recognized the change in value related to cash flow hedges in accumulated other comprehensive income, and reclassified a gain from accumulated other comprehensive income to earnings, which was offset by net losses on the assets or liabilities being hedged. These amounts were not material.

2. ACCOUNTING CHANGES -- (CONTINUED)

At January 1, 2001, the Company's consolidated financial statements were adjusted to record a cumulative effect of adopting SFAS 133, as follows (in millions):

	NET INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME
Adjustment to fair value of derivative contracts(1)	$(16.4)	$(15.8)
Income tax impact	5.7	1.6
Total	$(10.7)	$(14.2)

- ---

(1) Amount presented is net of adjustment to hedged item.

Derivatives not designated as hedges primarily consist of swaptions. Occasionally, the Company will sell a callable investment-type contract and may use interest rate swaptions or similar instruments to transform the callable liability into a fixed term liability. Although swaptions and other derivatives not designated as hedges are effective hedges from an economic standpoint, they do not qualify for hedge accounting treatment under SFAS 133.

For the three months ended March 31, 2001, the Company reported net income of $6.1 million, net of tax, primarily related to fair value hedges and to derivatives not designated as hedges. The impact to accumulated other comprehensive income for the three months ended March 31, 2001, was $(10.0) million, net of tax, primarily related to cash flow hedges.

3. SEGMENT INFORMATION

The Company provides financial products and services through the following segments: U.S. Asset Management and Accumulation, International Asset Management and Accumulation, Life and Health Insurance and Mortgage Banking. In addition, there is a Corporate and Other segment. The segments are managed and reported separately because they provide different products and services, have different strategies or have different markets and distribution channels.

The U.S. Asset Management and Accumulation segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals and provides asset management services to the Company's asset accumulation business, the life and health insurance operations and third-party clients.

The International Asset Management and Accumulation segment provides asset management products and services to retail clients in Australia and institutional clients throughout the world and provides life insurance and retirement and related financial products and services primarily to businesses, their employees and other individuals principally in Australia, Chile, Brazil, New Zealand, Mexico, India, Japan, Argentina and Hong Kong.

The Life and Health Insurance segment provides individual life and disability insurance to the owners and employees of businesses and other individuals in the United States and provides group life and health insurance to businesses in the United States.

The Mortgage Banking segment originates and services residential mortgage loan products for customers primarily in the United States.

The Corporate and Other segment manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate and Other segment primarily reflect financing activities for the Company, income on capital not allocated to other segments, intercompany eliminations, and non-recurring or other income or expenses not allocated to the segments based on review of the nature of such items.

The Company evaluates segment performance on segment operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and non-recurring events and transactions. Net realized capital gains, as adjusted, are net of tax, related changes in the amortization pattern of deferred policy acquisition costs, recognition of front-end fee revenues for sales charges on pension products and services and net realized capital gains credited to customers. Segment operating revenues exclude net realized capital gains and their impact on recognition of front-end fee revenues. Segment operating earnings is determined by adjusting GAAP net income for net realized capital gains and losses and non-recurring items which management believes are not indicative of overall operating trends. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of the Company's

3. SEGMENT INFORMATION -- (CONTINUED)

results of operations by highlighting earnings attributable to the normal, recurring operations of the business. However, segment operating earnings are not a substitute for net income determined in accordance with GAAP.

For the three months ended March 31, 2001, the Company excluded $20.5 million of non-recurring items, net of tax, from net income for the presentation of operating earnings. The non-recurring items included the negative effects of (a) a cumulative effect of change in accounting principle related to our implementation of SFAS 133 ($10.7 million), (b) a loss contingency reserve established for litigation ($5.9 million); and (c) expenses related to our demutualization ($3.9 million).

The accounting policies of the segments are similar to those as described in Note 1, with the exception of capital allocation. The Company allocates capital to its segments based upon an internal capital model that allows management to more effectively manage the Company's capital.

The following table summarizes selected financial information by segment as of, or for the three months ended March 31 and reconciles segment totals to those reported in the consolidated financial statements (in millions):

	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER	CONSOLIDATED
2001						
Revenues:						
Operating revenues	$ 1,015.7	$ 144.4	$ 1,002.4	$ 119.6	$ 35.0	$ 2,317.1
Net realized capital gains (losses), including recognition of front-end fee revenues	(12.1)	(37.7)	(1.3)	--	(30.0)	(81.1)
Revenues	$ 1,003.6	$ 106.7	$ 1,001.1	$ 119.6	$ 5.0	$ 2,236.0
Net income:						
Operating earnings (loss)	$ 88.8	$ (5.3)	$ 42.5	$ 23.9	$ 23.8	$ 173.7
Net realized capital gains (losses), as adjusted	(7.4)	(20.3)	(0.6)	--	(19.6)	(47.9)
Non-recurring items	(10.8)	--	0.1	--	(9.8)	(20.5)
Net income (loss)	$ 70.6	$ (25.6)	$ 42.0	$ 23.9	$ (5.6)	$ 105.3
Assets	$64,144.6	$4,928.1	$10,406.6	$1,915.2	$1,017.9	$82,412.4
Other segment data:						
Revenues from external customers	$ 978.2	$ 106.4	$ 1,001.8	$ 117.8	$ 31.8	$ 2,236.0
Intersegment revenues	25.4	0.3	(0.7)	1.8	(26.8)	--
Interest expense	1.3	--	2.3	--	17.1	20.7
Income tax expense (benefit)	16.4	(18.8)	21.2	12.8	(7.2)	24.4
Amortization of goodwill and other intangibles	0.3	15.2	0.8	0.2	(0.2)	16.3
2000						
Revenues:						
Operating revenues	$ 868.3	$ 157.4	$ 1,047.4	$ 97.7	$ 29.0	$ 2,199.8
Net realized capital gains (losses), including recognition of front-end fee revenues	(28.3)	4.7	83.4	--	11.0	70.8
Revenues	$ 840.0	$ 162.1	$ 1,130.8	$ 97.7	$ 40.0	$ 2,270.6

3. SEGMENT INFORMATION -- (CONTINUED)

	U.S. ASSET MANAGEMENT AND ACCUMULATION	INTERNATIONAL ASSET MANAGEMENT AND ACCUMULATION	LIFE AND HEALTH INSURANCE	MORTGAGE BANKING	CORPORATE AND OTHER	CONSOLIDATED
2000 (CONTINUED)						
Net income:						
Operating earnings (loss)	$ 88.7	$ (4.5)	$ 36.6	$ 18.0	$ 4.5	$ 143.3
Net realized capital gains (losses), as adjusted	(18.8)	4.7	54.8	--	9.1	49.8
Non-recurring items	--	--	--	--	--	--
Net income	$ 69.9	$ 0.2	$ 91.4	$ 18.0	$ 13.6	$ 193.1
Assets	$66,312.3	$5,550.8	$10,080.9	$1,793.9	$1,064.9	$84,802.8
Other segment data:						
Revenues from external customers	$ 821.7	$ 161.7	$ 1,132.4	$ 97.7	$ 57.1	$ 2,270.6
Intersegment revenues	18.3	0.4	(1.6)	--	(17.1)	--
Interest expense	1.8	--	0.3	--	21.7	23.8
Income tax expense	21.3	3.4	43.4	9.7	11.5	89.3
Amortization of goodwill and other intangibles	0.3	10.6	1.0	0.2	(0.3)	11.8

The Company operates in the United States and in selected markets internationally (including Australia, Chile, Brazil, New Zealand, Mexico, India, Japan, Argentina and Hong Kong). The following table summarizes selected financial information by geographic location as of or for the three months ended March 31 (in millions):

	REVENUES	LONG-LIVED ASSETS	ASSETS	NET INCOME (LOSS)
2001				
United States	$2,129.3	$ 520.1	$77,484.3	$130.9
International	106.7	1,206.3	4,928.1	(25.6)
Total	$2,236.0	$1,726.4	$82,412.4	$105.3
2000				
United States	$2,108.5	$ 500.2	$79,252.0	$192.9
International	162.1	1,365.9	5,550.8	0.2
Total	$2,270.6	$1,866.1	$84,802.8	$193.1

Long-lived assets include property and equipment and goodwill and other intangibles.

The Corporate and Other segment includes an equity ownership interest in Coventry Health Care, Inc. The Corporate and Other segment's equity in earnings of Coventry Health Care, Inc., which was included in net investment income, was $4.9 million and $6.0 million for the three months ended March 31, 2001 and 2000, respectively. The investment in Coventry Health Care, Inc. was $128.9 million and $122.9 million at March 31, 2001 and December 31, 2000, respectively. The Corporate and Other segment also includes consolidating and intersegment eliminations.

The Company's operations are not materially dependent on one or a few customers, brokers or agents, and revenues, assets and operating earnings are attributable to geographic location based on the country of domicile sales originate from.

4. PLAN OF DEMUTUALIZATION

On March 31, 2001, the Company's Board of Directors adopted a plan to convert Principal Mutual Holding Company from a mutual insurance holding company to a stock company. Adoption of the plan authorizes management to implement the plan for demutualization of the Company. Upon demutualization, the membership interests of Principal Life's policyholders in Principal Mutual Holding Company will be extinguished, and eligible policyholders will receive

4. PLAN OF DEMUTUALIZATION -- (CONTINUED)

compensation in exchange for the extinguishment of their membership interests. Their compensation will be in the form of common stock, cash or policy credits, depending upon the type of policy or policyholder.

Under Iowa insurance law, the plan also requires the approval of policyholders and the Insurance Commissioner of the State of Iowa. During 2001, the Company expects to file the plan with the Insurance Commissioner of the State of Iowa and to mail the proposed plan and related materials to policyholders eligible to vote.

5. COMMITMENTS AND CONTINGENCIES

The Company is a plaintiff or defendant in actions arising out of its operations. The Company is, from time to time, also involved in various governmental and administrative proceedings. While the outcome of any pending or future litigation cannot be predicted, management does not believe that any pending litigation will have a material adverse effect on the Company's business, financial condition or results of operations. However, no assurances can be given that such litigation would not materially and adversely affect the Company's business, financial condition or results of operations.

Other companies in the life insurance industry have historically been subject to substantial litigation resulting from claims disputes and other matters. Most recently, such companies have faced extensive claims, including class-action lawsuits, alleging improper life insurance sales practices. Negotiated settlements of such class-action lawsuits have had a material adverse effect on the business, financial condition and results of operations of certain of these companies. Principal Life is currently a defendant in two class-action lawsuits which allege improper sales practices.

In 2000, the Company reached an agreement in principal to settle these two class-action lawsuits alleging improper sales practices. The proposed settlement is subject to court approval and therefore is not yet final. In agreeing to the settlement, the Company specifically denied any wrongdoing. The Company has accrued a loss reserve for its best estimate based on information available. As uncertainties continue to exist in resolving alternative dispute resolution becomes available, the final cost of settlement could exceed the Company's estimate. However, the range of any additional cost related to the settlement cannot presently be reasonably estimated. See Note 6.

The Company is also subject to insurance guaranty laws in the states in which it writes business. These laws provide for assessments against insurance companies for the benefit of policyholders and claimants in the event of insolvency of other insurance companies. The assessments may be partially recovered through a reduction in future premium taxes in some states. The Company believes such assessments in excess of amounts accrued would not materially affect its financial condition or results of operations.

6. SUBSEQUENT EVENT

In April 2001, the proposed settlement of the class action lawsuit alleging improper sales practices received court approval. In agreeing to the settlement, the Company specifically denied any wrongdoing. The Company has accrued a loss reserve for its best estimate based on information available. As uncertainties continue to exist in resolving this matter, it is reasonably possible that, as the actual cost of the claims subject to alternative dispute resolution becomes available, the final cost of settlement could exceed the Company's estimate. The range of any additional cost related to the settlement cannot be presently estimated, however the Company believes the settlement will not have a material impact on its business, financial condition or results of operations.

OPINION OF DANIEL J. MCCARTHY

[Milliman & Robertson, Inc. logo]

March 31, 2001

The Board of Directors
Principal Mutual Holding Company
711 High Street
Des Moines, IA 50392-0650

Re: Plan of Conversion of Principal Mutual Holding Company

STATEMENT OF ACTUARIAL OPINION

SUBJECT OF THIS OPINION

This opinion letter relates to the actuarial aspects of the proposed Reorganization of Principal Mutual Holding Company ("Principal") pursuant to its Plan of Conversion (the "Plan") as presented to Principal's Board of Directors for its consideration and adoption on March 31, 2001. The specific opinion set forth herein relates to the proposed allocation of consideration among Eligible Policyholders as described in the Plan.

Capitalized terms have the same meaning in this opinion as they have in the Plan.

QUALIFICATIONS AND USAGE

I, Daniel J. McCarthy, am associated with the firm of Milliman & Robertson, Inc., ("M&R") and am a Member of the American Academy of Actuaries, qualified under the Academy's Qualification Standards to render the opinions set forth herein. I and other M&R staff acting under my direction have advised Principal during the course of its development of the Plan and the Actuarial Contribution Memorandum, an Exhibit thereto. The Plan is based on authority in Sections 521A.14(5)(b) and 508B.2 of Title XIII of the Code of Iowa (2001). The opinions set forth herein are not legal opinions concerning the Plan but rather reflect the application of actuarial concepts and standards of practice to the provisions thereof.

I am aware that this opinion letter will be furnished to the Commissioner of Insurance of the State of Iowa for her use in determining the fairness of the Plan, and to Principal's Members as part of the Policyholder Information Booklet that will be delivered to them, and I consent to the use of this letter for those purposes.

RELIANCE

In forming the opinions set forth in this memorandum, I have received from Principal extensive information concerning the past and present practices and financial results of Principal Life Insurance Company ("Principal Life"), formerly known as Principal Mutual Life Insurance Company and Bankers Life Company. This information includes actuarial studies and projected asset cash flows developed by Principal Life staff. I, and other M&R staff acting under my direction, met with Principal personnel and defined the information

we required; in all cases, we were provided with the information we requested to the extent that it was available or could be developed from Principal Life's records. We have made no independent verification of this information, although we have reviewed it where practicable for general reasonableness and internal consistency. I have relied on this information, which was provided under the general direction of Ellen Lamale, Principal Life's Senior Vice President & Chief Actuary. My opinions depend on the substantial accuracy of this information.

PROCESS

In all cases, I and other M&R staff acting under my direction either derived the results on which my opinions rest or reviewed derivations carried out by Principal Life employees.

OPINION

Under the Plan, consideration (shares of Common Stock of Principal Financial Group Inc., or their equivalent value in cash or policy credits) is to be distributed to each Eligible Policyholder in exchange for the Eligible Policyholder's Membership Interest. In my opinion, the principles, assumptions, and methodologies used to allocate consideration among Principal's Eligible Policyholders, as set forth in Article VII of the Plan (including the Actuarial Contribution Memorandum, an Exhibit thereto) are reasonable and appropriate and result in an allocation of consideration that is fair and equitable to the Eligible Policyholders.

DISCUSSION

General description of the method of allocation. Under the Plan, each Eligible Policyholder will be allocated a fixed component of consideration; i.e., a value, expressed in terms of shares of Common Stock, that is independent of the Eligible Policyholder's Actuarial Contribution. In addition, each Eligible Policyholder will be allocated a variable component of consideration if the Actuarial Contribution of any of the Policies owned by the Eligible Policyholder is positive. As defined in the Plan, Actuarial Contribution means, with respect to a particular Policy, the contribution that such Policy is estimated to have made to Principal Life's surplus and asset valuation reserve, plus the contribution that such Policy is expected to make in the future, calculated in each case according to the principles, assumptions and methodologies set forth in Article VII of the Plan and the Actuarial Contribution Memorandum.

For each Eligible Policyholder who receives a variable component of consideration, the amount of such consideration is equal to:

(a) the sum of the positive Actuarial Contributions of all Policies owned by the Eligible Policyholder, multiplied by

(b) the ratio of the Aggregate Variable Component to the sum of the positive Actuarial Contributions of all Policies,

subject to rounding rules described in the Plan.

Appropriateness of the "actuarial contribution" method. Most of the consideration allocated to Eligible Policyholders is allocated via the Aggregate Variable Component, using the "actuarial contribution" method described above. The previously cited Sections of the Code of Iowa do not provide any specific guidance as to the method of allocation; it is therefore appropriate to consider applicable professional literature when considering the appropriateness of an allocation method. The actuarial contribution method is recognized in the actuarial literature as an appropriate allocation method. In particular, Actuarial Standard of Practice 37, "Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualizations" ("ASOP 37"), which is the most authoritative professional guidance available to actuaries on this subject, states in part, "The variable component of consideration should be allocated on the basis of the actuarial contribution." ASOP 37 defines "actuarial contribution," in relevant part, to be "The contributions that a particular policy ... has made to the company's statutory surplus and asset valuation reserve, plus the present value of contributions that the same policy ... is expected to make in the future." This is consistent with the definition in the Plan. I therefore find that the use of "actuarial contribution" as the principal basis underlying the allocation of consideration is appropriate. I further find that, in the Plan, the actuarial contribution method has been implemented in a reasonable manner, through the use of methods and assumptions that are reasonable and appropriate, consistent with Principal's past and present business practices and relevant actuarial literature and, in particular, consistent with methods and assumptions prescribed or permitted by ASOP 37.

Discounting of expected future contributions to surplus. In determining the portion of a policy's Actuarial Contribution that arises from its expected future contribution to surplus, ASOP 37 provides that such contributions may be discounted to present value using either the expected after-tax rate of investment return or ".. a risk-adjusted rate appropriate for the line of business or type of policy involved." Principal has chosen the latter course, and has selected risk-adjusted rates of return generally consistent with Principal Life's pricing objectives or, in the instance of policies in the Closed Block, consistent with the funding of the Closed Block. I find that this use of risk-adjusted rates of return is appropriate, and that the rates of return selected are reasonable.

The effect of the Closed Block. As is set forth in Article II of the Plan, Principal Life formed and began operating a Closed Block coincident with the reorganization of Principal Mutual Life Insurance Company to a mutual holding company structure effective July 1, 1998. After the conversion of the MIHC, Principal Life will continue to operate the Closed Block in accordance with its terms as originally established. Principal has -- in calculating the Actuarial Contribution of each Closed Block policy -- estimated the contribution that each such policy is expected to make to Principal Life's surplus and asset valuation reserve from the date of the Closed Block's establishment forward by using assumptions that are consistent with those used in the funding of the Closed Block, with further adjustments to reflect the effect of future operating expenses that were not funded for in the Closed Block. I find that this is an appropriate manner in which to determine the expected future contributions to Principal Life's surplus and asset valuation reserve arising from Closed Block policies.

Appropriateness of the fixed component. Consideration is also allocated to Eligible Policyholders via the fixed component, through which each Eligible Policyholder is allocated a fixed number of shares of Common Stock without regard to the Actuarial Contribution of Policies owned by that Eligible Policyholder. This element of the allocation assures that each Eligible Policyholder will receive some distribution, and is consistent with overall concepts of equity. Under the Plan, the percentage of the total consideration that is allocated in this manner is small relative to that allocated in proportion to positive actuarial contributions, which is appropriate. I find that including a minimum allocation to each Eligible Policyholder using the fixed component is reasonable and appropriate, and that the size of the fixed component to be distributed to each Eligible Policyholder as set forth in the Plan, and the overall portion of consideration allocated among Eligible Policyholders via the fixed component -- approximately one-fourth of the total -- are reasonable. In making this finding, I have taken into account the guidance provided in ASOP 37. In particular, I have taken into account the treatment of the fixed component -- both as to the size of the fixed component received by each Eligible Policyholder and as to the overall portion of consideration allocated via the fixed component -- in prior demutualizations of mutual life insurance companies.

Appropriateness of the definition of "Eligible Policyholder." In considering the fairness of the allocation, I have taken into account the definition of "Eligible Policyholder" set forth in the Plan. Principal's definition is influenced in part by Iowa law, in part by the company's manner of operation (including the sale of certain classes of business through Company Trusts), in part by the provisions of Principal's By-laws, and in part by precedent from prior demutualizations. Taking into account these influences, I find the definition of Eligible Policyholder to be reasonable and appropriate.

Yours sincerely,

/s/ Daniel J. McCarthy
Daniel J. McCarthy

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	12
Statistical Information Sources	20
The Demutualization	21
Use Of Proceeds	30
Stockholder Dividend Policy	31
Capitalization	32
Selected Historical Financial Information	33
Unaudited Pro Forma Condensed Consolidated Financial Information	40
Unaudited Pro Forma Supplementary Information	44
Management's Discussion And Analysis Of Financial Condition And Results Of Operations	46
Business	86
Investments	135
Management	158
Regulation	172
Ownership Of Common Stock	179
Description Of Capital Stock And Change Of Control Related Provisions	180
Common Stock Eligible For Future Sale	184
Underwriting	185
Validity Of Common Stock	187
Experts	187
Additional Information	187
Glossary	G-1
Consolidated Financial Statements	F-1
Opinion Of Daniel J. McCarthy	A-1

Through and including , 2001 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

- ---
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Shares

PRINCIPAL FINANCIAL GROUP, INC.

Common Stock

(LOGO)

GOLDMAN, SACHS & CO.

Representatives of the Underwriters

- ---
- ---

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses expected to be incurred in connection with the issuance and distribution of common stock registered hereby, all of which expenses, except for the SEC registration fee, the New York Stock Exchange listing fee and the NASD filing fee, are estimates:

DESCRIPTION	AMOUNT
SEC registration fee	$734,161.86
New York Stock Exchange listing fee and expenses	*
NASD filing fee	*
Blue Sky fees and expenses (including legal fees)	*
Printing and engraving expenses	*
Legal fees and expenses (other than Blue Sky)	*
Accounting fees and expenses	*
Transfer Agent and Registrar's fees	*
Miscellaneous	*
TOTAL	$ *

- ---

* To be furnished by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Our directors and officers may be indemnified against liabilities, fines, penalties and claims imposed upon or asserted against them as provided in the Delaware General Corporation Law and our certificate of incorporation and by-laws. Such indemnification covers all costs and expenses incurred by a director or officer in his or her capacity as such. The board of directors, by a majority vote of a quorum of disinterested directors or, under certain circumstances, independent counsel appointed by the board of directors, must determine that the director or officer seeking indemnification was not guilty of willful misconduct or a knowing violation of the criminal law. In addition, the Delaware General Corporation Law and our certificate of incorporation may, under certain circumstances, eliminate the liability of directors and officers in a stockholder or derivative proceeding.

If the person involved is not a director or officer of Principal Financial Group, Inc., the board of directors may cause Principal Financial Group, Inc. to indemnify, to the same extent allowed for our directors and officers, such person who was or is a party to a proceeding by reason of the fact that he or she is or was our employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

We have policies in force and effect that insure our directors and officers against losses which they or any of them will become legally obligated to pay by reason of any actual or alleged error or misstatement or misleading statement or act or omission or neglect or breach of duty by such directors and officers in the discharge of their duties, individually or collectively, or as a result of any matter claimed against them solely by reason of their being directors or officers. Such coverage is limited by the specific terms and provisions of the insurance policies.

Pursuant to the underwriting agreements, in the forms filed as exhibits to this Registration Statement, the underwriters agree to indemnify directors and officers of Principal Financial Group, Inc. and persons controlling Principal Financial Group, Inc., within the meaning of the Securities Act of 1933, as amended, or the Act, against certain liabilities that might arise out of or are based upon certain information furnished to us by any such underwriter.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Upon the effective date of the demutualization, Principal Financial Group, Inc. will distribute approximately 260.5 million shares of common stock to eligible policyholders of Principal Life in connection with the demutualization. Exemption from registration under the Act for such distribution will be claimed under Section 3(a)(10) of the Act based on the approval by the Insurance Commissioner of the State of Iowa of the plan of conversion.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits. See Exhibit Index following the signature pages to this Registration Statement.

(b) Financial Statement Schedules.

	PAGE
Independent Auditors' Report	II-3
Schedule I Summary of Investments Other Than Investments in Related Parties as of December 31, 2000	II-4
Schedule III Supplementary Insurance Information for the years ended December 31, 2000, 1999 and 1998	II-5
Schedule IV Reinsurance for the years ended December 31, 2000, 1999 and 1998	II-7

All other schedules, other than those listed above, are omitted because the information is not required or because the information is included in the Consolidated Financial Statements or Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT AUDITORS ON SCHEDULES

The Board of Directors
Principal Mutual Holding Company

We have audited the consolidated financial statements of Principal Mutual Holding Company (the Company) as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, and have issued our report thereon dated February 2, 2001 (included elsewhere in this Registration Statement). Our audits also included the financial statement schedules listed in Item 16(b) of this Registration Statement. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Des Moines, Iowa
February 2, 2001

SCHEDULE I -- SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES
AS OF DECEMBER 31, 2000

TYPE OF INVESTMENT	COST	VALUE	AMOUNT AT WHICH SHOWN IN THE STATEMENT OF FINANCIAL POSITION
		($ IN MILLIONS)	
Fixed maturities, available-for-sale:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 23.2	$ 23.1	$ 23.1
States, municipalities and political subdivisions	287.4	295.7	295.7
Foreign governments	895.7	918.0	918.0
Public utilities	2,440.2	2,494.2	2,494.2
Convertibles and bonds with warrants attached	40.0	33.7	33.7
Redeemable preferred	21.4	21.2	21.2
All other corporate bonds	16,335.5	16,381.0	16,381.0
Mortgage-backed and other asset-backed securities	6,496.1	6,673.0	6,673.0
Total fixed maturities, available-for-sale	26,539.5	26,839.9	26,839.9
Equity securities, available-for-sale			
Common stocks:			
Public utilities	5.3	6.0	6.0
Banks, trust and insurance companies	58.8	58.4	58.4
Industrial, miscellaneous and all other	655.0	596.1	596.1
Non-redeemable preferred stock	86.8	82.4	82.4
Total equity securities, available-for-sale	805.9	742.9	742.9
Mortgage loans	11,603.1	xxxx	11,492.7
Real estate, net:			
Real estate acquired in satisfaction of debt	133.1	xxxx	109.6
Other real estate	1,308.2	xxxx	1,290.9
Policy loans	803.6	xxxx	803.6
Other investments	790.8	xxxx	811.0
Total investments	$41,984.2	xxxx	$42,090.6

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION
AS OF DECEMBER 31, 2000, 1999 AND 1998 AND FOR EACH OF THE YEARS THEN ENDED

SEGMENT	DEFERRED POLICY ACQUISITION COSTS	FUTURE POLICY BENEFITS AND CLAIMS	CONTRACTHOLDER AND OTHER POLICYHOLDER FUNDS
		($ IN MILLIONS)	
2000:			
U.S. Asset Management and Accumulation	$ 368.9	$ 6,065.4	$23,046.2
International Asset Management and Accumulation	37.8	971.9	52.4
Life and Health Insurance	926.6	6,156.6	1,799.0
Mortgage Banking	--	--	--
Corporate and Other	--	4.2	--
Total	$1,333.3	$13,198.1	$24,897.6
1999:			
U.S. Asset Management and Accumulation	$ 426.2	$ 5,675.2	$23,515.6
International Asset Management and Accumulation	21.6	834.7	57.8
Life and Health Insurance	983.1	5,976.0	1,623.3
Mortgage Banking	--	--	--
Corporate and Other	--	5.3	--
Total	$1,430.9	$12,491.2	$25,196.7
1998:			
U.S. Asset Management and Accumulation	$ 248.7	$ 5,472.4	$22,295.0
International Asset Management and Accumulation	9.7	745.6	--
Life and Health Insurance	846.3	5,646.3	1,616.0
Mortgage Banking	--	--	--
Corporate and Other	--	6.2	0.2
Total	$1,104.7	$11,870.5	$23,911.2

SCHEDULE III -- SUPPLEMENTARY INSURANCE INFORMATION, CONTINUED
AS OF DECEMBER 31, 2000, 1999 AND 1998 AND FOR EACH OF THE YEARS THEN ENDED

SEGMENT	PREMIUMS AND OTHER CONSIDERATIONS	NET INVESTMENT INCOME	BENEFITS, CLAIMS AND SETTLEMENT EXPENSES	AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS	OTHER OPERATING EXPENSES
			($ IN MILLIONS)		
2000:					
U.S. Asset Management and Accumulation	$ 525.4	$2,303.9	$2,310.6	$123.6	$ 619.6
International Asset Management and Accumulation	220.5	105.0	262.2	2.0	370.3
Life and Health Insurance	3,250.5	642.1	2,659.4	113.0	798.6
Mortgage Banking	--	(15.7)	--	--	282.7
Corporate and Other	--	137.0	0.1	--	169.6
Total	$3,996.4	$3,172.3	$5,232.3	$238.6	$2,240.8
1999:					
U.S. Asset Management and Accumulation	$ 566.7	$2,289.7	$2,335.3	$ 60.2	$ 561.5
International Asset Management and Accumulation	179.9	94.1	210.1	1.7	210.4
Life and Health Insurance	3,190.6	614.7	2,714.9	111.8	760.3
Mortgage Banking	--	3.3	--	--	310.8
Corporate and Other	0.4	70.2	0.6	--	53.6
Total	$3,937.6	$3,072.0	$5,260.9	$173.7	$1,896.6
1998:					
U.S. Asset Management and Accumulation	$ 281.7	$2,200.6	$2,047.1	$ 65.7	$ 513.4
International Asset Management and Accumulation	147.1	47.9	165.2	0.1	91.9
Life and Health Insurance	3,126.6	619.8	2,605.3	153.2	747.9
Mortgage Banking	--	12.5	--	--	250.2
Corporate and Other	263.0	53.1	271.4	--	251.6
Total	$3,818.4	$2,933.9	$5,089.0	$219.0	$1,855.0

SCHEDULE IV -- REINSURANCE
AS OF DECEMBER 31, 2000, 1999 AND 1998 AND FOR EACH OF THE YEARS THEN ENDED

	GROSS AMOUNT	CEDED TO OTHER COMPANIES	ASSUMED FROM OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
			($ IN MILLIONS)		
2000:					
Life insurance in force	$165,912.8	$21,935.3	$1,173.9	$145,151.4	0.8%
Premiums:					
Life insurance	$ 1,815.7	$ 48.7	$ 24.6	$ 1,791.6	1.4%
Accident and health insurance	2,326.4	121.6	--	2,204.8	--%
Total	$ 4,142.1	$ 170.3	$ 24.6	$ 3,996.4	0.6%
1999:					
Life insurance in force	$167,173.0	$17,529.2	$ 243.8	$149,887.6	0.2%
Premiums:					
Life insurance	$ 1,829.9	$ 38.5	$ 3.8	$ 1,795.2	0.2%
Accident and health insurance	2,160.1	18.0	0.3	2,142.4	--%
Total	$ 3,990.0	$ 56.5	$ 4.1	$ 3,937.6	0.1%
1998:					
Life insurance in force	$161,144.2	$ 9,663.4	$ 92.8	$151,573.6	0.1%
Premiums:					
Life insurance	$ 1,545.3	$ 37.3	$ 58.8	$ 1,566.8	3.8%
Accident and health insurance	2,254.6	6.4	3.4	2,251.6	0.2%
Total	$ 3,799.9	$ 43.7	$ 62.2	$ 3,818.4	1.6%

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

(a) to provide to the underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser;

(b) insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act"), may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue;

(c) for purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(d) for the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Des Moines, Iowa on June 8, 2001.

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ J. Barry Griswell

Name: J. Barry Griswell
Title: President and Chief Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David J. Drury, J. Barry Griswell and Michael H. Gersie, and each of them, his or her true and lawful attorney-in-fact and agent, with full power or substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and to sign any and all registration statements relating to the same offering of securities as this Registration Statement that are filed pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and any other regulatory authority, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ David J. Drury David J. Drury	Chairman of the Board, Chairman and Director	June 8, 2001
/s/ J. Barry Griswell J. Barry Griswell	President and Chief Executive Officer and Director	June 8, 2001
/s/ Michael H. Gersie Michael H. Gersie	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	June 8, 2001
/s/ Betsy J. Bernard Betsy J. Bernard	Director	June 8, 2001
/s/ Jocelyn Carter-Miller Jocelyn Carter-Miller	Director	June 8, 2001
/s/ Daniel Gelatt Daniel Gelatt	Director	June 8, 2001
/s/ Sandra L. Helton Sandra L. Helton	Director	June 8, 2001
/s/ Charles S. Johnson Charles S. Johnson	Director	June 8, 2001

SIGNATURE	TITLE	DATE
/s/ William T. Kerr William T. Kerr	Director	June 8, 2001
/s/ Lee Liu Lee Liu	Director	June 8, 2001
/s/ Victor H. Loewenstein Victor H. Loewenstein	Director	June 8, 2001
/s/ Ronald D. Pearson Ronald D. Pearson	Director	June 8, 2001
/s/ Federico F. Pena Federico F. Pena	Director	June 8, 2001
/s/ Donald M. Stewart Donald M. Stewart	Director	June 8, 2001
/s/ Elizabeth E. Tallett Elizabeth E. Tallett	Director	June 8, 2001

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement**
2.1	Plan of Conversion*
2.2	Share Sale Deed, dated as of June 17, 1999, among BT Investments (Australia) LLC, BT Foreign Investment Corporation, BT New Zealand Limited, BT International (Delaware), Inc., BT Nominees (H.K.) Limited, Deutsche Bank AG, Bankers Trust Corporation, Principal Financial Group (Australia) Pty Limited and Principal Financial Services, Inc.*
2.3	Deed to Amend the Share Sale Deed, dated as of August 31, 1999, among BT Investments (Australia) LLC, BT Foreign Investment Corporation, BT New Zealand Limited, BT International (Delaware), Inc., BT Nominees (H.K.) Limited, Deutsche Bank AG, Bankers Trust Corporation, Principal Financial Group (Australia) Pty Limited and Principal Financial Services, Inc.*
2.4	Second Amendment to the Share Sale Deed, dated as of March 14, 2001, among BT Investments (Australia) LLC, BT Foreign Investment Corporation, Deutsche New Zealand Limited (formerly called BT New Zealand Limited), BT International (Delaware), Inc., DB Nominees (H.K.) Limited (formerly called BT Nominees (H.K.) Limited), Deutsche Bank AG, Bankers Trust Corporation, Principal Financial Group (Australia) Pty Limited and Principal Financial Services, Inc.*
3.1	Form of Amended and Restated Certificate of Incorporation of Principal Financial Group, Inc. (included in Exhibit 2.1)*
3.2	Form of By-Laws of Principal Financial Group, Inc. (included in Exhibit 2.1)*
4.1	Form of Certificate for the Common Stock of Principal Financial Group, Inc., par value $0.01 per share**
4.2	Form of Stockholder Rights Agreement*
5.1	Opinion of Debevoise & Plimpton**
10.1	Principal Financial Group, Inc. Stock Incentive Plan*
10.2	Principal Financial Group Long-Term Performance Plan*
10.3	Principal Financial Group Incentive Pay Plan (PrinPay), amended and restated effective January 1, 2001*
10.4	Principal Financial Group, Inc. Directors Stock Plan*
10.5	Principal Select Savings Excess Plan*
10.6	Supplemental Executive Retirement Plan for Employees*
10.7	Employment Agreement, dated as of May 19, 2000, among Principal Mutual Holding Company, Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and J. Barry Griswell*
10.8	Change-of-Control Supplement and Amendment to Employment Agreement, dated as of October 19, 2000, among Principal Mutual Holding Company, Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and J. Barry Griswell*
10.9	Form of Principal Mutual Holding Company and Principal Life Insurance Company Change of Control Employment Agreement (Tier One Executives) among Principal Mutual Holding Company, Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and ("Executive")*
10.10	Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, Principal Financial Services, Inc. and U.S. Bank Trust National Association*
21.1	Subsidiaries of Principal Financial Group, Inc.*
23.1	Consent of Ernst & Young LLP*
23.2	Consent of Debevoise & Plimpton (included in Exhibit 5.1)**
23.3	Consent of Milliman & Robertson, Inc.*

	24.1	Powers of Attorney (included in the signature page of this Registration Statement)*

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* Filed herewith.

** To be filed by amendment.

EXHIBIT 2.1

PLAN OF CONVERSION

OF

PRINCIPAL MUTUAL HOLDING COMPANY

Under Sections 521A.14(5)(b) and 508B.2 of
Title XIII of the Code of Iowa (2001)

As adopted on March 31, 2001

TABLE OF CONTENTS

PREAMBLE..... 1

ARTICLE I DEFINITIONS.....3

ARTICLE II THE CONVERSION.....13

ARTICLE III APPROVAL BY THE COMMISSIONER.....14

3.1 Application.....14
3.2 Commissioner's Public Hearing; Commissioner's Order.....14
3.3 Notice of Public Hearing.....15

ARTICLE IV APPROVAL BY POLICYHOLDERS.....15

4.1 Policyholder Vote.....15
4.2 Notice of Members' Meeting.....16

ARTICLE V THE RESTRUCTURING.....17

5.1 Effect of Restructuring on the MIHC.....17
5.2 Effectiveness of Plan.....17
5.3 Tax Considerations.....23
5.4 Other Opinions.....25

ARTICLE VI POLICIES.....26

6.1 Policies.....26
6.2 Determination of Ownership.....27
6.3 In Force.....29

ARTICLE VII ALLOCATION OF POLICYHOLDER CONSIDERATION.....30

7.1 Allocation of Allocable Shares.....30
7.2 Allocation of Aggregate Variable Component.....31
7.3 Distribution of Consideration.....32
7.4 ERISA Plans.....38

ARTICLE VIII ADDITIONAL PROVISIONS.....38

8.1 Restriction on Acquisition of Securities by Officers and Directors.....38
8.2 Compensation of Directors, Officers, Agents and Employees.....40
8.3 Adjustment of Share Numbers.....40

8.4 No Preemptive Rights.....41
8.5 Notices.....41
8.6 Amendment or Withdrawal of Plan.....41
8.7 Corrections.....41
8.8 Costs and Expenses.....42
8.9 Separate Account Voting Procedures.....42
8.10 Governing Law.....43

Exhibits to the Plan:

EXHIBIT A - Form of Agreement and Plan of Merger

EXHIBIT B - Form of Amended and Restated Certificate of Incorporation of the Holding Company

EXHIBIT C - Form of By-Laws of the Holding Company

EXHIBIT D - Form of Articles of Incorporation of the Intermediate Holding Company

EXHIBIT E - Form of By-Laws of the Intermediate Holding Company

EXHIBIT F - Actuarial Contribution Memorandum

PLAN OF CONVERSION
OF
PRINCIPAL MUTUAL HOLDING COMPANY

Under Sections 521A.14(5)(b) and 508B.2 of
Title XIII of the Code of Iowa (2001)

PREAMBLE

This Plan has been adopted by the Board of Directors (the "Board") of Principal Mutual Holding Company, a mutual insurance holding company organized pursuant to Section 521A.14(1) of Title XIII and Chapter 491 of Title XII of the Code of Iowa (the "MIHC"), at a meeting duly called and held on March 31, 2001 (the "Adoption Date"). The Plan provides for the conversion of the MIHC from a mutual insurance holding company into a stock company in accordance with the requirements of Section 521A.14(5)(b) and Chapter 508B of Title XIII of the Code of Iowa (2001) (the "Conversion"). It also provides for the merger of the converted MIHC with and into a newly-formed Iowa corporation (the "Intermediate Holding Company"), which is a wholly-owned subsidiary of a newly-formed Delaware corporation (the "Holding Company"), the merger of Principal Financial Group, Inc. with and into the Intermediate Holding Company, and the merger of Principal Financial Services, Inc. with and into the Intermediate Holding Company, (the "Mergers"). The Conversion and the Mergers are hereafter collectively referred to as the "Restructuring."

The MIHC structure, adopted in 1998, has served the organization well and helped it accomplish many things in a short period of time. The environment in which the organization operates, however, has changed in a number of important ways since then. The passage of the Gramm-Leach-Bliley Act in 1999 which permits mergers that combine commercial banks, insurers and securities firms under one holding company may increase competition by substantially increasing the number, size and financial strength of the organization's competitors. Further, for a variety of reasons, other life insurance companies of the size of Principal Life Insurance Company ("Principal Life") have not adopted the mutual insurance holding company structure which leads to uncertainty about the receptivity and valuation of stock offered to the public by a company with this structure. While the organization is financially strong, these changes since the creation of the MIHC have led the Board and management to conclude that achievement of the organization's strategy will be enhanced through demutualization. The flexibility to raise additional capital and diversify into global financial services is enhanced in a demutualization. A demutualization will yield benefits to the policyholders of Principal Life by increasing the organization's financial resources and its ability to invest in new technology, products and markets and improved customer service.

The Conversion will provide Eligible Policyholders with an opportunity to receive shares of Common Stock, cash or Policy Credits in exchange for their otherwise illiquid Membership Interests, which will be extinguished in the Conversion. Thus, Eligible Policyholders will realize economic value from their Membership Interests that is not currently available to them so long as the MIHC remains a mutual company.

THE CONVERSION WILL NOT, IN ANY WAY, CHANGE PREMIUMS OR REDUCE POLICY BENEFITS, VALUES, GUARANTEES OR OTHER POLICY OBLIGATIONS OF PRINCIPAL LIFE TO ITS POLICYHOLDERS. ALSO, PRINCIPAL LIFE WILL CONTINUE TO PAY POLICY DIVIDENDS AS DECLARED (ALTHOUGH, AS ALWAYS, POLICY DIVIDENDS ARE NOT GUARANTEED AND MAY VARY FROM YEAR TO YEAR DUE TO EXPERIENCE).

The Board has received opinions from its financial, actuarial and legal advisors and has relied on those opinions in adopting the Plan.

The Board has unanimously determined that the Plan is fair and equitable to the Members, both as to their Membership Interests and as to their contractual interests as policyholders of Principal Life.

ARTICLE I

DEFINITIONS

As used in the Plan the following terms have the following meanings:

"Account Value Policy Credit" means a Policy Credit, in the form of an increase in the value of the applicable group annuity contract, issued to a Qualified Plan Customer or a Non-Rule 180 Qualified Plan Customer. Such increase in value shall be allocated to participants' accounts, where appropriate, based on account balances for which records are kept by Principal Life unless the Qualified Plan Customer or Non-Rule 180 Qualified Plan Customer directs otherwise.

"Actuarial Calculation Date" means the date as of which the Actuarial Contribution for the Policies will be calculated and is the same date as the Record Date.

"Actuarial Contribution" means, with respect to a particular Policy, the contribution that such Policy has made to Principal Life's statutory surplus and asset valuation reserve, plus the contribution that such Policy is expected to make in the future, as calculated according to the principles, assumptions and methodologies set forth in this Plan and the Actuarial Contribution Memorandum.

"Actuarial Contribution Memorandum" has the meaning specified in Section 7.1(b).

"Adoption Date" has the meaning specified in the first paragraph of the preamble hereto.

"Agents Savings Plan" means The Principal Select Savings Plan for Individual Field.

"Aggregate Fixed Component" has the meaning specified in Section 7.1(b).

"Aggregate Variable Component" has the meaning specified in Section 7.1(b).

"Agreement and Plan of Merger" has the meaning specified in Section 5.1.

"Allocable Shares" means, subject to Section 8.3, 350 million shares of Common Stock, to be allocated as described in Article VII.

"Application" has the meaning specified in Section 3.1.

"Board" has the meaning specified in the first paragraph of the preamble hereto.

"Chapter 508B" means Chapter 508B of Title XIII of the Code of Iowa (2001).

"Closed Block" has the meaning specified in Article II.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commissioner" means the Commissioner of Insurance of the State of Iowa, or such other governmental officer, body or authority as becomes the primary regulator of the MIHC under applicable Iowa law.

"Common Stock" means the shares of common stock of the Holding Company.

"Company Records" means the records of the MIHC or Principal Life, as applicable.

"Company Trust" means any trust established by Principal Life for its own administrative convenience in its capacity as an insurer.

"Conversion" has the meaning specified in the first paragraph of the preamble hereto.

"Director" means a member of the Board of Directors of the MIHC, Principal Financial Group, Inc., Principal Financial Services, Inc., the Holding Company, the Intermediate Holding Company or Principal Life.

"Directors Stock Plan" means the Principal Financial Group, Inc. Directors Stock Plan.

"Dividend Capacity" means the full extent of Principal Life's statutory capacity to pay a non-extraordinary dividend in 2001.

"Dividend Shortfall" means the amount, if any, of Principal Life's Dividend Capacity that Principal Life has been prohibited by the Commissioner from paying to Principal Financial Services, Inc. in 2001 prior to the Effective Date.

"Effective Date" has the meaning specified in Section 5.2(a).

"Elective Cash Requirements" means the amount needed by Principal Life to fund the aggregate amount of all elections and deemed elections for cash and Account Value Policy Credits (pursuant to paragraphs (a), (d) and (e) of Section 7.3) that are attributable to Eligible Policyholders who are allocated more than 100 shares of Common Stock.

"Eligible Policyholder" means a Person (or, collectively, the Persons) who, on the Record Date, is the Owner of one or more Policies and who, as reflected in the Company Records, has a continuous membership interest in the MIHC through ownership of one or more Policies from the Record Date until and on the Effective Date. Members of the MIHC who were issued Policies on or before April 8, 1980 and transferred ownership rights of such Policies on or before April 8, 1980 are Eligible Policyholders so long as such Policies remain In Force until and on the Effective Date. The MIHC may deem a Person to be an Eligible Policyholder in order to correct any immaterial administrative errors or oversights.

"Employees Savings Plan" means the Principal Select Savings Plan for Employees.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Evidence of Insurance Coverage" means subscription agreements (other than a Subscription to Trust and Enrollment Form for Accident and Sickness Insurance under the Principal Retiree Group Medical Trust) except in the case of Group Universal Life-1 and Long Term Care-1 Policies issued to a Company Trust, in which cases "Evidence of Insurance Coverage" means certificates of insurance.

"Excess Plan" means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

"Executive Officer" means any "executive officer" (within the meaning of Rule 3b-7 under the Securities Exchange Act of 1934, as amended) of the Holding Company, from time to time, whether such person is an officer of the Holding Company or one of its subsidiaries, and any officer of the MIHC or Principal Life with the title of Second Vice President or a more senior title, or any officer of a subsidiary or affiliate of Principal Life with a title equivalent to a Second Vice President or more senior title with Principal Life. For a period of six months after the Effective Date, the individuals identified as executive officers in the Holding Company's registration statement under the Securities Act of 1933, as amended, relating to the IPO shall be considered Executive Officers regardless of any change in title or duties, provided that such individuals are in the employ of the Holding Company or any of its subsidiaries.

"Federal Income Tax Law" means the Code, Treasury Regulations issued thereunder, administrative interpretations thereof and judicial interpretations with respect thereto.

"Funding Agreement" means an agreement which authorizes Principal Life to accept and accumulate funds for the purpose of making one or more payments at future dates and which does not contain or provide for any mortality or morbidity contingencies.

"Holding Company" has the meaning specified in the first paragraph of the preamble hereto.

"Holding Stock Plan" has the meaning specified in Section 8.1(a).

"In Force" has the meaning specified in Section 6.3.

"Intermediate Holding Company" has the meaning specified in the first paragraph of the preamble hereto.

"IPO" means the initial public offering by the Holding Company of shares of Common Stock.

"IPO Stock Price" means the price per share to the public at which Common Stock is sold in the IPO.

"LTI Plan" means the Principal Financial Group Long-Term Performance Plan.

"Mandatory Cash Requirements" means the amount needed by Principal Life to fund (1) the mandatory Policy Credits and cash payments for Eligible Policyholders described in paragraphs (b) and (c) of Section 7.3; (2) the elections and deemed elections

for cash and Account Value Policy Credits (pursuant to paragraphs (a), (d) and (e) of Section 7.3) that are attributable to Eligible Policyholders who are allocated 100 or fewer shares of Common Stock; and (3) an amount equal to the fees and expenses of the Restructuring paid by Principal Life.

"Member" means a Person who is (or, collectively, the Persons who are) on a specified date, the Owner of one or more Policies which is (are) then In Force. A Person who was issued a Policy on or before April 8, 1980 and transferred ownership rights of that Policy on or before April 8, 1980 is also a Member so long as such Policy remains In Force.

"Members' Meeting" has the meaning specified in Section 4.1.

"Membership Interest" means all the rights and interests arising under the Articles of Incorporation or By-Laws of the MIHC or otherwise by law arising through ownership or issuance of a Policy or Policies of Principal Life including, but not limited to, any right to vote and any rights which may exist with regard to the net worth of the MIHC, including any such rights in liquidation or reorganization of the MIHC, but shall not include any other right or interest expressly conferred by a Policy.

"Mergers" has the meaning specified in the first paragraph of the preamble hereto.

"MIHC" has the meaning specified in the first paragraph of the preamble hereto.

"Net Cash Proceeds" means proceeds of the IPO received by the Holding Company plus proceeds of any Other Capital Raising Transaction received by the Holding Company, net of all underwriting commissions, offering expenses and other transaction expenses of the Holding Company, without taking into account any proceeds received pursuant to any Underwriters' Over-Allotment Option.

"Nonroutine Matter" means a matter up for shareholder vote if:

(i) the matter concerns the election or removal of Directors of the Holding Company and a proxy contest is appropriately initiated by a contesting shareholder whereby the contesting shareholder seeks to (1) nominate one or more candidates or a slate of candidates for election as Directors of the Holding Company in opposition to a nominee of the Holding Company's Board of Directors, (2) oppose one or more nominees of the Holding Company's Board of Directors for election of Directors, (3) remove one or more Directors of the Holding Company for cause, or (4) nominate one or more candidates for election as Directors of the Holding Company to fill the vacancy or vacancies resulting from the removal of one or more Directors by the Holding Company's shareholders;

(ii) the matter concerns (1) the merger or consolidation of the Holding Company into or with any other person, the sale, lease or exchange of all or substantially all of the property or assets of the Holding Company, or the recapitalization or dissolution of the Holding Company, in each case which requires a vote of the Holding Company's shareholders under applicable Delaware law, or (2) any other corporate transaction that would result in an exchange or conversion of the shares of Common Stock in the separate account formed pursuant to Section 7.3(d) for cash, securities or other property;

(iii) the matter concerns any proposal requiring the Board of Directors of the Holding Company to amend or redeem the rights under the Holding Company's shareholder rights plan, other than a proposal with respect to which the Holding Company has received the advice of nationally-recognized legal counsel to the effect that the proposal is not a proper subject for shareholder action under Delaware law; or

(iv) the matter concerns any of the following subjects, if such matter is brought to a vote of shareholders prior to the first anniversary of the Effective Date: (1)(a) the issuance of Common Stock after the Effective Date at a price materially less than the then prevailing market price of the Common Stock, other than through an underwritten offering or to officers, employees, Directors or insurance agents of the Holding Company or any subsidiary of the Holding Company pursuant to an employee benefit plan, and (b) a vote of the Holding Company's shareholders with respect to the issuance is conducted or is required to be conducted under applicable Delaware law; (2) any matter that requires approval by a vote of more than a majority of the outstanding stock of the Holding Company entitled to vote thereon under Delaware law or the Certificate of Incorporation or the By-Laws of the Holding Company; or (3) an amendment of the Certificate of Incorporation or By-Laws of the Holding Company submitted for approval to the Holding Company's shareholders.

"Non-Rule 180 Qualified Plan Customer" means an Owner of a group annuity contract issued by Principal Life, which contract is designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Code and which covers employees described in Section 401(c) of the Code but which does not meet the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended.

"Other Capital Raising Transactions" means one or more of the following: (1) a private placement of Common Stock, (2) a private placement or public offering of convertible preferred stock, (3) a private placement or public offering of debt or (4) other sources of capital, or a combination thereof, on or prior to the Effective Date.

"Owner" means with respect to any Policy, the Person or Persons specified or determined pursuant to Section 6.2.

"Person" means an individual, corporation, limited liability company, joint venture, partnership, association, trust, trustee, unincorporated entity or any other form of entity, organization, or government or any department or agency thereof. A Person who is the Owner of Policies in more than one legal capacity (e.g., trustee under separate trusts) shall be deemed to be a separate Person in each capacity.

"Plan" means this Plan of Conversion (including all Exhibits hereto) as it may be amended or modified from time to time in accordance with Section 8.6 or Section 8.7.

"Policy" has the meaning specified in Section 6.1.

"Policy Credit" means consideration to be paid in the form of an increase in cash value, account value, dividend accumulations, face amount, extended term period or benefit payment, as appropriate, depending on the Policy. If the Policy is owned by a Qualified Plan Customer, the Policy Credit will take the form of a Separate Account Policy Credit or an Account Value Policy Credit. If the Policy is owned by a Non-Rule 180 Qualified Plan Customer, the Policy Credit will take the form of an Account Value Policy Credit.

"Principal Life" has the meaning specified in the second paragraph of the preamble hereto.

"Public Hearing" has the meaning specified in Section 3.2.

"Qualified Plan Customer" means an Owner of a group annuity contract issued by Principal Life, which contract is designed to fund benefits under a retirement plan which is qualified under Section 401(a) or Section 403(a) of the Code (including a plan covering employees described in Section 401(c) of the Code, provided such plan meets the requirements of Rule 180 promulgated under the Securities Act of 1933, as amended) or which is a governmental plan described in Section 414(d) of the Code, excluding (i) group annuity contracts that fund only guaranteed deferred annuities or annuities in the course of payments and (ii) group annuity contracts for which Principal Life does not perform retirement plan record keeping services and whose group annuity contracts do not provide for investments in Principal Life's pooled unregistered separate accounts.

"Record Date" means the date that is one year prior to the Adoption Date.

"Restructuring" has the meaning specified in the first paragraph of the preamble hereto.

"Routine Matter" means any matter up for shareholder vote that does not fall within the definition of a Nonroutine Matter.

"Savings Plans" means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

"Separate Account Policy Credit" means a Policy Credit issued to a Qualified Plan Customer in the form of an addition to such Qualified Plan Customer's group annuity contract of an interest in a separate account maintained by Principal Life. This separate account will receive, for the benefit of such Qualified Plan Customer's qualified plan, a number of shares of Common Stock equal to the number of shares allocable to such contract pursuant to Section 7.1. The separate account interests issued as Separate Account Policy Credits to a Qualified Plan Customer shall be allocated to plan participants' accounts, where appropriate, based on account balances for which records are kept by Principal Life unless the Qualified Plan Customer directs otherwise.

"State" means any state, territory or insular possession of the United States of America and the District of Columbia.

"Stock Incentive Plan" means the Principal Financial Group, Inc. Stock Incentive Plan.

"Stock Purchase Plan" means the Principal Financial Group, Inc. Employee Stock Purchase Plan.

"Total Debt/Capitalization Ratio" means (1) long-term debt plus current maturities, commercial paper and other short-term borrowings divided by (2) long-term debt plus current maturities, commercial paper, and other short term borrowings plus shareholders' equity (including preferred stock) plus minority interest.

"Underwriters' Over-Allotment Option" means, as applicable, the option granted by the Holding Company to the underwriters to purchase additional shares of Common Stock under certain conditions or any over-allotment option granted by the Holding Company to the underwriters in any Other Capital Raising Transactions to purchase additional securities in those offerings under any applicable conditions.

"Voting Policyholder" has the meaning specified in Section 4.1.

ARTICLE II

THE CONVERSION

Under the Plan, the MIHC converts to a stock company and all Membership Interests are extinguished. Eligible Policyholders will receive as consideration under the Plan shares of Common Stock, cash or Policy Credits.

While the Membership Interests are extinguished in the Conversion, the Conversion will not, in any way, change premiums or reduce policy benefits, values, guarantees or other policy obligations of Principal Life to its policyholders.

Upon Principal Life's reorganization to the mutual insurance holding company structure effective July 1, 1998, for policyholder dividend purposes only, Principal Life formed and began operating a closed block of participating policies for the benefit of the participating policies and contracts included therein (the "Closed Block"). The Closed Block is described in Article V of the Plan of Reorganization of Principal Mutual Life Insurance Company, dated as of September 15, 1997, as amended. Assets of Principal Life were allocated to the Closed Block in an amount that produces cash flows which, together with anticipated revenue from the Closed Block policies and contracts, are expected to be sufficient to support the Closed Block policies and contracts including, but not limited to, provisions for payment of claims and certain expenses and taxes, and to provide for continuation of policy and contract dividends in aggregate in accordance with the 1997 dividend scales if the experience underlying such scales continues, and to allow for appropriate adjustments in such scales if such experience changes. After the Effective Date, Principal Life will continue to operate the Closed Block in accordance with its terms.

ARTICLE III

APPROVAL BY THE COMMISSIONER

3.1 APPLICATION. The MIHC shall file with the Commissioner an application (the "Application") to convert pursuant to Chapter 508B to a stock company in a transaction whereby Membership Interests in the MIHC will be extinguished and Eligible Policyholders will receive the consideration provided in the Plan as a result of its effectiveness. The Application shall include the following:

(a) the Plan;

(b) the form of notice of the Public Hearing;

(c) the form of notice of the Members' Meeting;

(d) the form of ballot to be solicited from Voting Policyholders;

(e) the information required by Section 508B.6 of the Code of Iowa (2001); and

(f) any other information or documentation required by the Commissioner.

3.2 COMMISSIONER'S PUBLIC HEARING; COMMISSIONER'S ORDER. The Plan is subject to the approval of the Commissioner. The Commissioner will hold a hearing on the compliance of the Plan with all provisions of law, the fairness and equity of the terms of the Plan and on whether the Intermediate Holding Company and Principal Life will have the amount of capital and surplus necessary for their future solvency (the "Public Hearing"). The MIHC, its Members and other interested persons shall have the right to appear at the Public Hearing. The Public Hearing will occur after the Members' Meeting.

3.3 NOTICE OF PUBLIC HEARING.

(a) Written notice by the MIHC of such Public Hearing, in a form satisfactory to the Commissioner, shall be mailed by priority mail or delivered by the MIHC at the MIHC's expense at least 30 days prior to the Public Hearing to each Voting Policyholder, and other interested persons as determined by the Commissioner. Such notice of Public Hearing shall be accompanied or preceded by information relevant to the Public Hearing, including the time, date, place and purpose of the Public Hearing, all of which shall be in a form satisfactory to the Commissioner.

(b) The MIHC shall give notice of such Public Hearing by publication once in each of The Des Moines Register, USA Today (National Edition) and The New York Times (National Edition) and by posting on the MIHC's website. Such newspaper publications and the MIHC website posting shall be made at least 30 days prior to the Public Hearing and shall be in a form satisfactory to the Commissioner.

ARTICLE IV

APPROVAL BY POLICYHOLDERS

4.1 POLICYHOLDER VOTE.

(a) The MIHC shall hold a special meeting of Members (the "Members' Meeting"). At the Members' Meeting, any Person who is (or, collectively, Persons who are) a Member on the Adoption Date (the "Voting Policyholders") shall be entitled to vote on the proposal to approve the Restructuring by ballot or in person at the Members' Meeting.

(b) The Restructuring is subject to the approval of not less than two-thirds of the votes of the Voting Policyholders cast thereon by ballot or in person at the Members' Meeting.

(c) Based on Company Records, each Voting Policyholder shall be entitled to one vote pursuant to Chapter 508B and the Articles of Incorporation of the MIHC,

regardless of the number of Policies or amount of insurance and benefits held by or issued to such Voting Policyholder. Two or more persons who are the Owners of a single Policy and who are one Member shall be deemed one Voting Policyholder for purposes of voting and collectively shall be entitled to one vote.

4.2 NOTICE OF MEMBERS' MEETING.

(a) The MIHC shall mail notice by priority mail of the Members' Meeting to all Voting Policyholders as provided herein. Such notice of Members' Meeting may be mailed together with the notice of Public Hearing pursuant to Section 3.3. The notice shall set forth the reasons for the ballot vote and the time, date and place of the Members' Meeting, and shall enclose a ballot for each Voting Policyholder. Such notice and ballot shall be mailed to the address of each Voting Policyholder as it appears on Company Records, except in instances where mailing of notice is not feasible as determined by the Commissioner. Such mailing shall be made at least 30 days prior to the Members' Meeting and shall be in a form satisfactory to the Commissioner. Such notice period for the Members' Meeting may run concurrently with the notice period for the Public Hearing provided for in Section 3.3.

(b) Such notice of the Members' Meeting shall be accompanied or preceded by information relevant to the Members' Meeting, including a copy or summary of the Plan and other explanatory information, all of which shall be in a form satisfactory to the Commissioner.

(c) The MIHC shall give notice of such Members' Meeting by publication once in each of The Des Moines Register, USA Today (National Edition) and The New York Times (National Edition) and by posting on the MIHC's website. Such newspaper publications and the MIHC website posting shall be made at least 30 days prior to the Members' Meeting and shall be in a form satisfactory to the Commissioner.

ARTICLE V

THE RESTRUCTURING

5.1 EFFECT OF RESTRUCTURING ON THE MIHC. On the Effective Date, the MIHC shall be converted from a mutual insurance holding company into a stock company in accordance with Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B and the Mergers shall occur in accordance with the agreement and plan of merger (the "Agreement and Plan of Merger"), the form of which is attached hereto as Exhibit A. As a result of the Conversion and the Mergers, Principal Life will become a wholly-owned subsidiary of the Intermediate Holding Company, and the Intermediate Holding Company will continue as a wholly-owned subsidiary of the Holding Company on the

Effective Date. The Intermediate Holding Company, as the surviving company in the Mergers, will succeed to all of the assets, liabilities, rights, title and interests of the MIHC and the other entities in the Mergers that are not the surviving company. The forms of the Amended and Restated Certificate of Incorporation and By-Laws of the Holding Company and the forms of the Articles of Incorporation and By-Laws of the Intermediate Holding Company as shall be in effect on the Effective Date are set forth as Exhibits B, C, D and E, respectively.

5.2 EFFECTIVENESS OF PLAN.

(a) The effective date of the Plan (the "Effective Date") shall be the date on which the closing of the IPO occurs, which shall be a date occurring after the approval of the Plan by the Voting Policyholders and the Commissioner, provided that in no event shall the Effective Date be more than 12 months after the date on which the Commissioner approved or conditionally approved the Plan, unless such period is extended by the Commissioner. The Plan shall be deemed to have become effective at 12:01 a.m., Central Time, on the Effective Date.

(b) Upon the effectiveness of the Plan:

(i) The MIHC shall become a stock company by operation of Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B.

(ii) All Membership Interests shall be extinguished and Eligible Policyholders shall be entitled to receive in exchange therefor shares of Common Stock, cash or Policy Credits in accordance with Article VII and subject to Section 8.3.

(iii) The Mergers shall be effective.

(iv) The Holding Company shall sell shares of Common Stock in the IPO for cash and, if applicable, shall engage or shall have engaged in one or more Other Capital Raising Transactions.

(v) The Net Cash Proceeds must, at a minimum, be sufficient to fund the Mandatory Cash Requirements in full, and the Net Cash Proceeds shall be used first for that purpose. Provided that Principal Life has not been prohibited by the Commissioner, prior to the Effective Date, from paying dividends to Principal Financial Services, Inc. in 2001 equal to its Dividend Capacity, any Net Cash Proceeds that remain after the Mandatory Cash Requirements have been funded in full shall be used next to fund the Elective Cash Requirements in accordance with Section 7.3(k). If the Net Cash Proceeds are sufficient to fund both the Mandatory Cash Requirements and the Elective Cash Requirements in full, the Holding Company may retain up to $250 million of any Net Cash Proceeds that remain. Any remaining Net Cash Proceeds in excess of this $250 million limit must be contributed to Principal Life. Notwithstanding the foregoing, if,

prior to the Effective Date, Principal Life has been prohibited by the Commissioner from paying dividends to Principal Financial Services, Inc. in 2001 equal to its Dividend Capacity, then the amount the Holding Company is required to contribute to fund the Elective Cash Requirements shall be reduced by the lesser of: (A) the Dividend Shortfall; or (B) the extent, if any, that the aggregate of cash and cash equivalents held by the MIHC, the Holding Company, Principal Financial Services, Inc. and Principal Financial Group, Inc. on the business day immediately preceding the Effective Date is less than $250 million.

The proceeds of any Underwriters' Over-Allotment Option shall be used first to fund (in accordance with Section 7.3(k)) that portion, if any, of the Elective Cash Requirements that is not funded in full by the Net Cash Proceeds to the extent required by the immediately preceding paragraph. The Holding Company may retain any amounts received from any Underwriters' Over-Allotment Option proceeds that are not needed to fund the Elective Cash Requirements.

The Holding Company shall contribute to the Intermediate Holding Company, and the Intermediate Holding Company shall in turn contribute to Principal Life, any Net Cash Proceeds and proceeds of any Underwriters' Over-Allotment Option that are needed to fund the Mandatory Cash Requirements or the Elective Cash Requirements. All proceeds ultimately to be contributed to Principal Life pursuant to this Section 5.2(b)(v) must be contributed not later than one business day after such proceeds are received by the Holding Company.

(vi) Principal Life shall receive from the Holding Company, solely for allocation to the separate account described in the definition of "Separate Account Policy Credit," and for no other purposes, a number of shares of Common Stock that is adequate to provide the Separate Account Policy Credits.

(c) As soon as reasonably practicable following the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the Effective Date, unless the Commissioner approves a later date, (i) the Holding Company shall issue to the Eligible Policyholders entitled to receive Common Stock pursuant to Section 7.3 a number of shares of Common Stock determined in accordance with Article VII registered in the respective names of such Eligible Policyholders, and (ii) Principal Life shall pay cash or credit Policy Credits to Eligible Policyholders pursuant to Section 7.3, subject in each case to Section 8.3.

(d) The Holding Company shall arrange for the listing of the Common Stock on a national securities exchange and shall use its reasonable efforts to maintain such listing for so long as the Holding Company is a publicly-traded company. Except as

provided in Section 7.3(j), neither the MIHC nor the Holding Company shall have any obligation to provide a procedure for the sale of shares of Common Stock.

(e) In addition to the IPO, the Holding Company may also raise capital through one or more Other Capital Raising Transactions, as determined by the Board of Directors of the Holding Company.

The capital to be raised by the IPO or any Other Capital Raising Transaction shall be in such amounts as the Board of Directors of the Holding Company shall determine, provided that the proceeds raised in all such Other Capital Raising Transactions, together with any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, shall not in the aggregate exceed one- third of the total proceeds raised in any such Other Capital Raising Transactions, including any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, and the IPO.

The aggregate amount of any debt issued in such Other Capital Raising Transactions, together with any amounts received from any Underwriters' Over-Allotment Option with respect to any such Other Capital Raising Transactions, if applicable, shall not cause the Holding Company's Total Debt/Capitalization Ratio to exceed 25% on the date any such debt is issued.

The form, structure and terms of the IPO are subject to prior review and approval by the Commissioner.

The form, structure and terms of any Other Capital Raising Transaction are subject to prior review and approval by the Commissioner, as set forth in Section 5.2(g).

(f) The MIHC and the Holding Company shall use their best efforts to ensure that the managing underwriters for the IPO and any Other Capital Raising Transaction conduct the offering process in a manner that is generally consistent with customary practices for similar offerings. The MIHC and the Holding Company shall allow the Commissioner and the Commissioner's financial advisors reasonable access to permit them to observe the offering process. Special pricing committees of the boards of directors of the MIHC and the Holding Company shall determine the price of Common Stock offered in the IPO and any securities offered in any Other Capital Raising Transaction. These board committees shall consist entirely of Directors who are not officers or employees of the MIHC, the Holding Company, or any affiliate and no employees, officers or directors of or legal counsel to any of the underwriters for the IPO or any Other Capital Raising Transaction shall serve on such committees. Neither the MIHC nor the Holding Company will enter into an underwriting agreement for the IPO or any Other Capital Raising Transaction if it is notified that the Commissioner has not received confirmation from its financial advisors to the effect that the MIHC, the Holding

Company and the underwriters for the offerings have complied in all material respects with the requirements of this Section 5.2(f). The underwriting agreements and any amendments thereto shall contain terms and provisions that are acceptable to the Commissioner. The MIHC shall provide the Commissioner with a letter, dated the date of the signing of the underwriting agreements, representing that as of that date it has complied with the foregoing requirements in this Section 5.2(f) and that it will continue to do so. On the Effective Date, the MIHC will provide the Commissioner with a letter confirming these representations as of that date.

(g) Written notice of the type and approximate amount of Other Capital Raising Transactions, if any, in which the Holding Company proposes to engage will be provided to the Commissioner.

If the Holding Company proposes to engage in an Other Capital Raising Transaction that is classified under subsections (1), (2) or (3) of the Other Capital Raising Transactions definition in Article I, the Holding Company will make reasonable efforts to provide such notice 25 days prior (but in no event shall notice be given less than 15 days prior) to the earlier of the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any such Other Capital Raising Transaction.

If the Holding Company proposes to engage in an Other Capital Raising Transaction that is classified under subsection (4) of the Other Capital Raising Transactions definition in Article I, the Holding Company will provide such notice no fewer than 25 days prior to the earlier of the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any such Other Capital Raising Transaction.

The Holding Company will provide written notice to the Commissioner at least 10 business days prior to the earlier of the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow, relating to any Other Capital Raising Transaction, of the approximate amount and the expected range of the offering price, interest or dividend rate, conversion or redemption price and other relevant terms of such Other Capital Raising Transaction.

During any notice period provided for in this Section 5.2(g), the Holding Company will promptly provide to the Commissioner any additional information required by the Commissioner regarding any proposed Other Capital Raising Transaction. The Commissioner may, in her sole discretion, toll the running of the applicable notice period until such time as all such information is received.

The Holding Company shall not proceed with the distribution of any preliminary prospectus or preliminary offering memorandum, or commencement of the roadshow,

relating to any Other Capital Raising Transaction without the express written approval of the Commissioner.

5.3 TAX CONSIDERATIONS. The Plan shall not become effective and the Restructuring shall not occur, unless, on or prior to the Effective Date:

(a) The MIHC shall have obtained rulings from the Internal Revenue Service or, at the option of the MIHC, received the opinion of Debevoise & Plimpton or other nationally recognized independent tax counsel, addressed to the Board and in form and substance satisfactory to the Board, substantially to the effect that:

(i) Policies issued by Principal Life prior to the Effective Date will not be deemed newly issued, issued in exchange for existing Policies or newly purchased for any material federal income tax purpose as a result of the reorganization of the MIHC pursuant to the Plan;

(ii) With respect to any Policy issued by Principal Life prior to the Effective Date that is part of a tax-qualified retirement funding arrangement described in Section 403(b) or Section 408 or Section 408A of the Code, the consummation of the Plan, including the crediting of consideration in the form of Policy Credits to such Policy pursuant to Section 7.3, will not result in any transaction that:

(A) constitutes a distribution to the employee or beneficiary of the arrangement under Section 72 or Section 403(b)(11) of the Code, or a designated distribution, defined in Section 3405(e)(1) of the Code, that is subject to withholding under Section 3405(b) of the Code,

(B) disqualifies an individual retirement annuity policy under Section 408(e) of the Code or gives rise to a prohibited transaction under Section 4975 of the Code between the individual retirement annuity and the individual for whose benefit it is established, or his or her beneficiary,

(C) requires the imposition of a penalty for a premature distribution under Section 72(t) of the Code or a penalty for excess contributions to certain qualified retirement plans under Section 4973 or Section 4979 of the Code, or

(D) otherwise adversely affects the tax-favored status accorded such Policies under the Code or results in penalties or any other material adverse federal income tax consequences to the holders of such Policies under the Code;

(iii) With respect to any Policy issued by Principal Life prior to the Effective Date that is part of a tax-qualified pension or profit-sharing plan described in

Section 401(a) or Section 403(a) of the Code and that will be credited with consideration in the form of Policy Credits pursuant to Section 7.3, the consummation of the Plan, including the crediting of such Policy Credits, will not result in any transaction that disqualifies such plan under Section 401(a) or Section 403(a) of the Code, whichever is applicable, gives rise to a prohibited transaction under Section 4975 of the Code, or otherwise adversely affects the tax-favored status accorded such Policies under the Code or results in penalties or any other material adverse federal income tax consequences to the holders of such Policies under the Code.

(iv) Eligible Policyholders receiving solely Common Stock pursuant to Section 7.3 and Qualified Plan Customers whose Policies are credited with Separate Account Policy Credits should not recognize gain or loss for federal income tax purposes as a result of the consummation of the Plan.

(b) The MIHC shall have received an opinion of nationally recognized independent tax counsel, addressed to the Board and in form and substance satisfactory to the Board, substantially to the effect that the summary of the principal income tax consequences to Eligible Policyholders of their receipt of consideration pursuant to Section 7.3 set forth in the information provided to Voting Policyholders pursuant to Section 4.2(b), to the extent it describes matters of law or legal conclusions, is, subject to the limitations and assumptions set forth therein, an accurate summary of the material federal income tax consequences to Eligible Policyholders of the consummation of the Plan under the Federal Income Tax Law in effect on the date of the commencement of the mailing of such information to Voting Policyholders and remains accurate under the Federal Income Tax Law in effect as of the Effective Date, except for any developments between the date of the commencement of mailing and the Effective Date (i) the principal federal income tax consequences of which to Eligible Policyholders are, under the ruling or in the opinion of such counsel, accurately described in all material respects in the information provided to Voting Policyholders or (ii) that the MIHC has determined are not materially adverse to the interests of Eligible Policyholders.

5.4 OTHER OPINIONS. The Plan shall not become effective and the Restructuring shall not occur, unless, on or prior to the Effective Date:

(a) The MIHC shall have received an opinion of Goldman, Sachs & Co., or another nationally-recognized financial advisor, as to the fairness from a financial point of view to Eligible Policyholders, taken as a group, of the exchange of the aggregate Membership Interests for Common Stock, cash or Policy Credits in accordance with this Plan.

(b) The MIHC shall have received an opinion of Daniel J. McCarthy, F.S.A., a consulting actuary associated with Milliman & Robertson, Inc., that the principles, assumptions, and methodologies used to allocate consideration among the Eligible

Policyholders are reasonable and appropriate and result in an allocation of consideration that is fair and equitable to the Eligible Policyholders.

ARTICLE VI

POLICIES

6.1 POLICIES.

(a) For the purposes of this Plan, the term "Policy" means:

(i) each original life, health or accident insurance policy or annuity contract (including each annuity contract issued to an employer funding the termination of a pension plan) that has been issued or assumed by Principal Life, provided that any supplementary contract issued to effect the annuitization of an individual deferred annuity shall be treated with such annuity as one Policy;

(ii) each Evidence of Insurance Coverage issued by Principal Life under a group insurance policy or group annuity contract issued to a Company Trust; and

(iii) each certificate of insurance issued by Principal Life to Persons who have exercised a portability or continuation option under any of Principal Life's group universal life insurance Policies or group long term care insurance Policies.

(b) The following policies and contracts shall be deemed not to be Policies for purposes of this Plan:

(i) except as provided in Section 6.1(a)(i), any supplementary contract or settlement option contract;

(ii) except as provided in Section 6.1(a)(ii) and (iii), any certificate or other evidence of insurance or coverage issued to an insured or an annuitant, as applicable, under a group insurance policy or group annuity contract;

(iii) any reinsurance assumed by Principal Life as a reinsurer on an indemnity basis (but assumption certificates may constitute Policies if they otherwise fall within the definition of Policies as provided in Section 6.1(a)(i));

(iv) all administrative services agreements, Funding Agreements and synthetic guaranteed investment contracts; and

(v) any policy issued by Principal Life and ceded to another insurance company via assumption reinsurance.

6.2 DETERMINATION OF OWNERSHIP. The Owner of any Policy as of any date specified in the Plan shall be determined by the MIHC on the basis of Company Records as of such date in accordance with the following provisions:

(a) The Owner of a Policy shall be the holder of the Policy as shown on Company Records, as described with greater specificity in Sections 6.2(b), (c), (d) and (i).

(b) If an individual Policy contains ownership provisions and the Owner is named therein, then the Owner is the Person named as such in the Policy, as shown on Company Records.

(c) If an individual Policy does not contain ownership provisions, or contains such provisions but an Owner is not named therein, the principal Person upon whose life or health the Policy is issued, as shown on Company Records, shall be the Owner.

(d) The Owner of a Policy that is a group insurance policy or a group annuity contract shall be the Person or Persons specified in the master policy or contract as the policyholder or contractholder, unless no policyholder or contractholder is so specified, in which case the Owner shall be the Person or Persons to whom or in whose name the master policy or contract shall have been issued, as shown on Company Records, provided that each holder, as shown on Company Records, of Evidence of Insurance Coverage issued by Principal Life under a group insurance policy or group annuity contract issued to a Company Trust shall be deemed to be an Owner of a Policy, and such holder, and not the trustee of any such Company Trust, nor any other Person with an interest in such policy or contract, shall be deemed a Voting Policyholder, an Eligible Policyholder or an Owner, as applicable.

(e) Notwithstanding Sections 6.2(a), (b), (c) and (d), the Owner of a Policy that has been assigned to another Person by an assignment of ownership thereof absolute on its face and filed with Principal Life, in accordance with the provisions of such Policy and Principal Life's rules with respect to the absolute assignment of such Policy in effect at the time of such assignment (which rules, for purposes of this Plan, shall be approved by the Commissioner), shall be the Owner of such Policy as shown on Company Records. Unless an assignment satisfies the requirements specified for such an assignment in this Section 6.2(e), the determination of the Owner of a Policy shall be made without giving effect to such assignment.

(f) Notwithstanding Sections 6.2(a), (b), (c) and (d), with respect to a Policy that funds an employee benefit plan and that has been assigned by an assignment absolute

on its face, subsequent to the Record Date and before the Effective Date as provided above, to a trust for such plan that is qualified under Section 401(a), Section 403(a) or Section 501(c)(9) of the Code, such trust shall be deemed, for purposes of this Plan, to have been the Owner on the Record Date and as of the Effective Date for purposes of the definition of Eligible Policyholder set forth in Article I hereof.

(g) Except as otherwise set forth in this Article VI, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy.

(h) In no event may there be more than one Owner of a Policy, although more than one Person may constitute a single Owner. If a Person owns a Policy with one or more other Persons, they will constitute a single Owner with respect to the Policy.

(i) In any situation not expressly covered by the foregoing provisions of this Section 6.2, the policyholder or contractholder, as reflected on Company Records, and as determined in good faith by the MIHC, shall, subject to a contrary decision by the Commissioner pursuant to Section 6.2(k), conclusively be presumed to be the Owner of such Policy for purposes of this Section 6.2 and, except for administrative errors, the MIHC shall not be required to examine or consider any other facts or circumstances.

(j) The mailing address of an Owner as of any date for purposes of the Plan shall be the Owner's last known address as shown on Company Records as of such date.

(k) Any dispute as to the identity of the Owner of a Policy or the right to vote or receive consideration shall be resolved in accordance with the provisions of this Section 6.2 and such other procedures as may be acceptable to the Commissioner.

6.3 IN FORCE.

(a) A Policy shall be deemed to be in force ("In Force") as of any date if, as shown on Company Records (A)(i) such Policy has been issued and is in effect or (ii) such Policy has not been issued but (x) has an effective date on or before such date and (y) Principal Life's administrative office has received with respect to such Policy on or before such date either (xx) an application complete on its face or (yy) payment of full initial premium (or such lesser amount required by Principal Life's normal administrative procedures) and sufficient information to effect a contract of insurance according to Principal Life's normal administrative procedures for coverage to be effective, provided that any Policy referred to in this clause (ii) is issued as applied for, and (B) such Policy has not matured by death or otherwise or been surrendered or otherwise terminated; provided that a Policy shall be deemed to be In Force after lapse for nonpayment of premiums until expiration of any applicable grace period (or other similar period however designated in such Policy) or any extension of such grace period in accordance with

Principal Life's normal administrative procedures, during which time the Policy is in full force for its basic benefits.

(b) In the case of any reinstated Policy, the determination of such Policy's variable component, if any, pursuant to Article VII shall be made based on the original issue date of such Policy and without regard to any lapse and reinstatement.

(c) A Policy shall not be deemed to have matured by reason of death as of any date unless verbal or written notice of such death has been received in Principal Life's administrative office on or prior to such date, as shown on Company Records. The date of the surrender or termination of a Policy shall be as shown on Company Records.

ARTICLE VII

ALLOCATION OF POLICYHOLDER CONSIDERATION

7.1 ALLOCATION OF ALLOCABLE SHARES.

(a) The consideration to be given to Eligible Policyholders in exchange for their Membership Interests shall be shares of Common Stock, cash or Policy Credits, as provided in this Article VII. Solely for purposes of calculating the amount of such consideration, each Eligible Policyholder will be allocated (but not necessarily issued) shares of Common Stock in accordance with this Article VII.

(b) Each Eligible Policyholder shall be allocated out of the Allocable Shares a number of shares of Common Stock equal to the sum of:

(i) a fixed component of consideration equal to 100 shares of Common Stock (subject to proportional adjustment as provided in Section 8.3) regardless of how many Policies, if any, such Eligible Policyholder owns or was issued, and

(ii) a variable component of consideration consisting of a number of shares of Common Stock reflecting the portion, if any, of the Aggregate Variable Component allocated with respect to each Policy of which such Eligible Policyholder was the Owner on the Record Date, so long as such Eligible Policyholder remained a Member continuously until and on the Effective Date as reflected in Company Records. A Person who is an Eligible Policyholder by virtue of being a Member of the MIHC who was issued a Policy on or before April 8, 1980 and transferred ownership rights of such Policy on or before April 8, 1980 will not receive a variable component of consideration with respect to such Policy.

The Allocable Shares shall be allocated first to provide for the number of shares required for the aggregate fixed component of consideration allocable in respect of all Eligible Policyholders (the "Aggregate Fixed Component"), and the remainder of the Allocable Shares shall constitute the aggregate variable component of consideration (the "Aggregate Variable Component"). The Aggregate Variable Component shall be allocated in accordance with the principles set forth in Section 7.2 and the calculation of actuarial contribution described in the Actuarial Contribution Memorandum (the "Actuarial Contribution Memorandum") attached as Exhibit F.

7.2 ALLOCATION OF AGGREGATE VARIABLE COMPONENT. The Aggregate Variable Component shall be allocated to Eligible Policyholders with respect to Policies of which they are Owners on the Actuarial Calculation Date as follows:

(a) Such allocation shall be made by multiplying each Eligible Policyholder's Actuarial Contribution by the ratio of the Aggregate Variable Component to the sum of all the Actuarial Contributions of all Policies. Each Eligible Policyholder's variable component shall be computed by summing the aforementioned calculation of said policyholder's Policies and rounding such result to the nearest integral number of shares (with one-half shares being rounded upward). Because of such rounding, the aggregate of Eligible Policyholders' variable components will not necessarily be equal to the Aggregate Variable Component. In the event the aggregate of Eligible Policyholders' variable components is different from the Aggregate Variable Component, the rounding of the Eligible Policyholders' variable components will be redone using a different criterion as to the point at or above which partial shares are rounded upward. This point will be chosen such that the aggregate of Eligible Policyholders' variable components is as large as possible while remaining not greater than the Aggregate Variable Component.

(b) The MIHC shall make reasonable determinations of the dollar amount of Actuarial Contribution, which shall be zero or a positive number according to the principles and methodologies set forth in the Actuarial Contribution Memorandum.

(c) Each such Actuarial Contribution shall be determined on the basis of Company Records as of the Actuarial Calculation Date without regard to any changes in the status of, or premiums in excess of those required on such Policies that occur subsequent to the Actuarial Calculation Date.

7.3 DISTRIBUTION OF CONSIDERATION.

(a) Any Eligible Policyholder other than one of those described in paragraphs (b)-(e) of this Section 7.3 shall be issued a number of shares of Common Stock equal to the number of shares allocated to such Eligible Policyholder, unless, subject to the limitations set forth in Section 7.3(k), such Eligible Policyholder has affirmatively elected, on a form provided to such Eligible Policyholder that has been properly

completed and received by the MIHC on or prior to the date of the Members' Meeting referred to in Section 4.1, to receive cash.

(b) To the extent shares of Common Stock are allocable with respect to a Policy of a type described below, the Eligible Policyholder who is the Owner of such Policy shall not be issued shares of Common Stock and shall instead be credited Policy Credits (in an amount determined pursuant to Section 7.3(h)) based on the number of shares of Common Stock allocated to such Eligible Policyholder as provided in this Article VII:

(i) a Policy that is an individual retirement annuity contract within the meaning of Section 408(b) or 408A of the Code or an annuity contract under Section 403(b) of the Code;

(ii) a Policy that is an individual annuity contract that has been issued pursuant to a plan qualified under Section 401(a) or Section 403(a) of the Code directly to the plan participant;

(iii) a Policy that is an individual life insurance policy that has been issued pursuant to a plan qualified under Section 401(a) or Section 403(a) of the Code directly to the plan participant.

(c) To the extent shares of Common Stock are allocable with respect to a Policy owned by an Eligible Policyholder of a type described below, such Eligible Policyholder shall not be issued shares of Common Stock and shall instead be paid cash (in an amount determined pursuant to Section 7.3(h)) based on the number of shares of Common Stock allocated to such Eligible Policyholder as provided in this Article VII:

(i) an Eligible Policyholder whose address for mailing purposes as shown on Company Records is an address at which mail is undeliverable or deemed to be undeliverable in accordance with guidelines approved by the Commissioner, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b);

(ii) an Eligible Policyholder with respect to whom the MIHC determines in good faith to the satisfaction of the Commissioner that it is not reasonably feasible or appropriate to provide consideration in the form that such Eligible Policyholder would otherwise receive, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b);

(iii) an Eligible Policyholder whose address for mailing purposes as shown on Company Records is located outside the States of the United States of America, unless the Policy is one of the types described in clauses (i) through (iii) of Section 7.3(b).

(d) To the extent shares of Common Stock are allocable with respect to a Policy owned by a Qualified Plan Customer, subject to the limitations set forth in Sections 7.3(k), (l) and (m), such Qualified Plan Customer shall not be issued shares of Common Stock and shall instead be issued Separate Account Policy Credits unless such Qualified Plan Customer has affirmatively elected, on a form provided to such Qualified Plan Customer that has been properly completed and received by the MIHC on or prior to the date of the Members' Meeting, to receive Common Stock, cash or Account Value Policy Credits.

(e) To the extent shares of Common Stock are allocable with respect to a Policy owned by a Non-Rule 180 Qualified Plan Customer, subject to the limitations set forth in Section 7.3(k), such Non-Rule 180 Qualified Plan Customer shall not be issued shares of Common Stock and shall instead be issued Account Value Policy Credits unless such Non-Rule 180 Qualified Plan Customer has affirmatively elected, on a form that has been properly completed and received by the MIHC on or prior to the date of the Members' Meeting, to receive Common Stock or cash.

(f) In the event that an Eligible Policyholder who is the Owner of more than one Policy is entitled to receive consideration under this Article VII both in the form of Policy Credits and in the form of cash or shares of Common Stock, the fixed component of consideration payable to such Eligible Policyholder shall be payable only with respect to those Policies for which cash or shares of Common Stock are paid. In the event that an Eligible Policyholder has been allocated consideration with respect to two or more Policies, all of which would be credited Policy Credits pursuant to this Section 7.3, then the fixed component of consideration shall be credited to the Policy with the earliest Policy effective date.

(g) In the event that more than one Person constitutes a single Owner of a Policy, consideration allocated pursuant to this Article VII shall be distributed jointly to such Persons.

(h) If consideration is to be paid or credited to an Eligible Policyholder in cash or Policy Credits (other than Separate Account Policy Credits), as the case may be, pursuant to the Plan, the amount of such consideration shall be equal to the number of shares of Common Stock allocable to such Eligible Policyholder as provided in this Article VII multiplied by the IPO Stock Price. If consideration is to be credited to an Eligible Policyholder in Separate Account Policy Credits, such consideration shall initially consist of an interest in the number of shares of Common Stock allocable to such Eligible Policyholder as provided in this Article VII. Principal Life shall use reasonable efforts to make payment of such consideration as soon as reasonably practicable after the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the

Effective Date, unless the Commissioner approves a later date, net of any applicable withholding tax, by check, or by the crediting of a Policy Credit, as the case may be.

(i) As soon as reasonably practicable following the Effective Date, but in any event no more than 60 days (or 75 days if the Net Cash Proceeds are not sufficient to fund the Elective Cash Requirements in full) following the Effective Date, unless the Commissioner approves a later date, the Holding Company shall issue to each Eligible Policyholder, in book-entry form as uncertificated shares, the shares of Common Stock allocated to such Eligible Policyholder for which such Eligible Policyholder will not receive consideration from Principal Life in the form of cash or Policy Credits, and mail to each such Eligible Policyholder an appropriate notice that a designated number of shares of Common Stock have been registered in the name of such Eligible Policyholder. Upon request of the registered holder of such shares issued in book-entry form as uncertificated shares, the Holding Company shall promptly mail a stock certificate representing such shares to the registered holder.

(j) Subject to any applicable requirements of federal or state securities law, the Holding Company shall, in the unlikely event there are Eligible Policyholders who receive under the Plan 99 or fewer shares of Common Stock, establish a commission-free sales program which shall begin no sooner than the first business day after the six-month anniversary of the Effective Date and no later than the first business day after the twelve- month anniversary of the Effective Date and shall continue in either case for three months or for such longer period of time as the Board of Directors of the Holding Company may determine to be appropriate and in the best interest of the Holding Company and Eligible Policyholders. Pursuant to such program, each Eligible Policyholder who receives under the Plan 99 or fewer shares of Common Stock shall be entitled to sell at prevailing market prices all, but not less than all, the shares of Common Stock received hereunder by such Eligible Policyholder, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. Each Eligible Policyholder entitled to participate in the commission-free sales program shall be entitled to purchase that number of shares of Common Stock that is equal to the number necessary in order to round up such Eligible Policyholder's holdings to 100 shares, without paying brokerage commissions, mailing charges, registration fees or other administrative or similar expenses. The Holding Company shall establish administrative procedures for the delivery of requests to sell or purchase shares of Common Stock through such program. The Holding Company may, in its discretion, institute one or more commission-free sales programs in the future, but is not required to do so. The commission-free sale and purchase arrangements described herein shall be subject to such limitations as are agreed upon between the MIHC, the Holding Company and the Securities and Exchange Commission.

(k) If the Net Cash Proceeds and the proceeds of any Underwriters' Over-Allotment Option are not sufficient, after the Mandatory Cash Requirements are satisfied,

to fund the Elective Cash Requirements in full, such amount as is available shall be distributed by Principal Life to Eligible Policyholders, in accordance with the number of shares of Common Stock allocated, beginning with the Eligible Policyholders allocated 101 shares of Common Stock and continuing to the highest level of share allocation possible at which cash or Account Value Policy Credit elections and deemed elections can be satisfied using such amount of available funds. Eligible Policyholders described in Section 7.3(a) whose cash elections cannot be satisfied shall instead receive Common Stock. Qualified Plan Customers whose cash or Account Value Policy Credit elections cannot be satisfied shall instead receive Separate Account Policy Credits. Non-Rule 180 Qualified Plan Customers whose cash elections or Account Value Policy Credit deemed elections cannot be satisfied shall instead receive Common Stock.

(l) Notwithstanding any other provisions, the amount of Separate Account Policy Credits shall be limited so that no less than 50% of the total consideration distributed pursuant to this Section 7.3 shall be in the form of Common Stock to ensure that the Restructuring qualifies as a tax-free reorganization under the Code. Such limitation shall be accomplished by calculating the total amount of Separate Account Policy Credits that may, consistent with such 50% requirement, be credited after all other payments of consideration other than in the form of Common Stock (giving effect to Section 7.3(k)) and crediting the amount available in accordance with the number of shares of Common Stock allocated, beginning with such Qualified Plan Customers allocated no more than the fixed component of consideration and continuing to the highest level of share allocation possible at which all deemed elections for Separate Account Policy Credits can be satisfied using the available amount. Eligible Policyholders whose deemed elections for Separate Account Policy Credits cannot be satisfied shall instead receive Common Stock.

(m) The availability of Separate Account Policy Credits to any particular Qualified Plan Customer shall be subject to the terms of the applicable Policy and any applicable state insurance regulatory approvals. If any particular Qualified Plan Customer is deemed to elect Separate Account Policy Credits and such Separate Account Policy Credits are not available for any of the reasons specified in the preceding sentence, such Qualified Plan Customer shall instead receive Common Stock.

7.4 ERISA PLANS. The MIHC and Principal Life have applied to the Department of Labor for an exemption from Section 406(a) of ERISA and Section 4975 of the Code with respect to the receipt of consideration pursuant to the Plan by employee benefit plans subject to the provisions of such sections. Notwithstanding any other provision of the Plan, if such exemption is not received prior to the Effective Date, the MIHC shall, subject to the Commissioner's approval, either pay such consideration to such Eligible Policyholders or delay payment of such consideration to such Eligible Policyholders and may place such consideration in an escrow or similar arrangement subject to terms and conditions approved by the Commissioner. Any such escrow or arrangement shall

provide for payment to Eligible Policyholders of such consideration plus interest earned thereon not later than the third anniversary of the Effective Date and all costs and expenses of such escrow or arrangement shall be borne by the MIHC or its subsidiaries.

ARTICLE VIII

ADDITIONAL PROVISIONS

8.1 RESTRICTION ON ACQUISITION OF SECURITIES BY OFFICERS AND DIRECTORS.

(a) Subject to the limitations set forth in this Section 8.1, nothing in this Plan shall be deemed to prohibit the officers, Directors, employees, agents and employee benefit plans of the Holding Company or its subsidiaries from purchasing for cash, at the same price as offered to the public in any public offering, Common Stock or from acquiring Common Stock as consideration pursuant to Article VII or pursuant to a transaction otherwise permitted by this Plan. Subject to the limitations set forth in this Section 8.1, nothing shall be deemed to prohibit the Holding Company, Principal Life or any direct or indirect subsidiary of the Holding Company from establishing stock option plans, stock incentive plans, stock purchase plans and share ownership plans related to the Common Stock (each, a "Holding Stock Plan") that are customary for publicly traded companies.

(b) During the eighteen-month period immediately following the Effective Date, without the prior approval of the Commissioner, neither the Holding Company, Principal Life nor any of their affiliates shall (i) adopt any Holding Stock Plan other than the Stock Incentive Plan, the LTI Plan, the Stock Purchase Plan, the Directors Stock Plan, the Agents Savings Plan, the Employees Savings Plan, and the Excess Plan, (ii) amend any Holding Stock Plan (or, in the case of the LTI Plan and the Savings Plans, the portions thereof that relate to Common Stock), or (iii) amend any guideline related to the operation of any such Holding Stock Plan attached to the Holding Stock Plan. The immediately preceding sentence shall not preclude any amendment to each or any of the Savings Plans to make Common Stock an investment option or a deemed investment option thereunder. During the five year period immediately following the Effective Date, unless the shareholders of the Holding Company approve an increase in such number by a shareholder vote, the maximum number of shares of Common Stock that may be made issuable under all Holding Stock Plans other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan is 6% of the number of shares outstanding immediately following the Effective Date.

(c) Until six months after the Effective Date, the Holding Company shall not make any awards under the Stock Incentive Plan, the Stock Purchase Plan or the

Directors Stock Plan, or distribute any Common Stock under the LTI Plan, to any Executive Officer or Director, and no Executive Officer or Director (or any parent, spouse of a parent, child, spouse of a child, spouse, brother or sister, including any step and adoptive relationships, of such Executive Officer or Director) shall purchase any Common Stock. The Holding Company shall not make any awards under the Stock Incentive Plan or the Stock Purchase Plan, or distribute any Common Stock under the LTI Plan, to any person who is not an Executive Officer or Director until at least 30 days following the Effective Date.

(d) Without limiting the generality of the foregoing, except to the extent exercisability or distribution is accelerated (i) due to the approved retirement of any person other than an Executive Officer or Director, (ii) due to the death or disability of any person (including an Executive Officer or Director) or (iii) with the approval of the Commissioner, no awards to any person under the Stock Incentive Plan or the Directors Stock Plan shall become exercisable or distributable earlier than the eighteen month anniversary of the Effective Date. For purposes of the preceding sentence, any determination regarding a recipient's disability or approved retirement shall be made in accordance with the applicable Holding Stock Plan. No Common Stock shall be issuable to any participant under the Excess Plan earlier than the eighteen month anniversary of the Effective Date.

(e) Nothing in this Section 8.1 shall prevent the Holding Company from (i) issuing Common Stock in connection with the Employees Savings Plan or the Agents Savings Plan, (ii) matching contributions by participants to either such plan or (iii) crediting the account of any participant (including any Executive Officer) under any of the Savings Plans by reference to the value of the Common Stock. Further, except as provided in Section 8.1(b), 8.1(c) or 8.1(d), nothing in this Section 8.1 shall prevent the Holding Company from issuing Common Stock pursuant to any Holding Stock Plan.

8.2 COMPENSATION OF DIRECTORS, OFFICERS, AGENTS AND EMPLOYEES. No Director, officer, insurance agent or employee of the MIHC or its subsidiaries shall receive any fee, commission or other valuable consideration whatsoever, other than their usual salary and compensation, for in any manner aiding, promoting or assisting in connection with the transactions contemplated by the Plan or the Mergers, except as provided for herein or as approved by the Commissioner.

8.3 ADJUSTMENT OF SHARE NUMBERS. In order to effect a filing range (in the registration statement under the Securities Act of 1933, as amended, relating to the IPO) for the IPO Stock Price which the MIHC and the managing underwriters of the IPO deem appropriate, the MIHC may adjust, by vote of the Board or a duly authorized committee thereof at any time before the Effective Date and with the prior approval of the Commissioner, the number of shares of Common Stock set forth in the definition of Allocable Shares. Upon such an adjustment, the number of shares set forth in

Section 7.1(b)(i) as the fixed component of consideration shall be adjusted proportionately. The number of shares resulting from any such adjustment shall be rounded up to the next higher integral number; provided, that no such adjustment will be made unless it would result, without any such rounding, in the number of Allocable Shares to be allocated in respect of each Policy as the fixed component of consideration pursuant to Section 7.1(b)(i) being an integral number.

8.4 NO PREEMPTIVE RIGHTS. No member of the MIHC or other Person shall have any preemptive right to acquire shares of Common Stock in connection with this Plan.

8.5 NOTICES. If the MIHC complies substantially and in good faith with the requirements of Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B or the terms of the Plan with respect to the giving of any required notice to Voting Policyholders, its failure in any case to give such notice to any Person or Persons entitled thereto shall not impair the validity of the actions and proceedings taken under Section 521A.14(5)(b) of the Code of Iowa (2001) and Chapter 508B or the Plan or entitle such Person to any injunctive or other equitable relief with respect thereto.

8.6 AMENDMENT OR WITHDRAWAL OF PLAN. At any time prior to the Effective Date, the Board may withdraw or, with the Commissioner's approval, amend, the Plan. The Plan may be amended by the Board of Directors of the Holding Company after the Effective Date with the approval of the Commissioner. However, nothing herein shall be construed to prevent the amendment of the Articles of Incorporation or By-Laws of the MIHC or the Certificate of Incorporation or By-Laws of the Holding Company at any time in accordance with their terms and with applicable law.

8.7 CORRECTIONS. The MIHC may, until the Effective Date, by an instrument executed by its Chairman, Chief Executive Officer or any Executive Vice President, attested by its Secretary under the MIHC's corporate seal and submitted to the Commissioner, make such modifications as are appropriate to correct errors, clarify existing items or make additions to correct manifest omissions in the Plan (including the Exhibits). The MIHC may in the same manner also make such modifications as may be required by the Commissioner after the Public Hearing as a condition of approval of the Plan. Subject to the terms of the Plan, the Holding Company may issue additional shares of Common Stock and take any other action it deems appropriate to remedy errors or miscalculations made in connection with the Plan.

8.8 COSTS AND EXPENSES. All reasonable costs related to the Plan and the Mergers, including without limitation, (1) those costs attributable to the use of outside advisors by the MIHC, Principal Life, the Iowa Division of Insurance or the New York Department of Insurance and (2) any costs related to any deferral of the Effective Date pursuant to Section 5.2, shall be borne by the MIHC, the Holding Company or Principal Life.

8.9 SEPARATE ACCOUNT VOTING PROCEDURES.

(a) Shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) shall be voted in accordance with the terms of Principal Life's agreement with the independent fiduciary for such separate account, as amended from time to time, and in accordance with the terms of the plan of operation for such separate account, as amended from time to time with the prior approval of the Commissioner. These agreements shall initially provide as follows:

(i) Principal Life or its agent shall seek specific instruction from Qualified Plan Customers as to how each Qualified Plan Customer wishes to votes shares of Common Stock representing such Qualified Plan Customer's interest in the separate account formed pursuant to Section 7.3(d). Principal Life or its agent will vote shares of Common Stock in such separate account in accordance with the instructions provided by each Qualified Plan Customer.

(ii) In all shareholder votes on Routine Matters, shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) representing the interest of Qualified Plan Customers who have not provided voting instructions to Principal Life or its agent, shall be voted in the same ratio as those shares of Common Stock held in such separate account for which instructions were given to Principal Life or its agent by Qualified Plan Customers as described in Section 8.9(a)(i).

(iii) In the unlikely event of a shareholder vote on a Nonroutine Matter, shares of Common Stock held in the separate account formed pursuant to Section 7.3(d) representing interests of Qualified Plan Customers who have not provided voting instructions to Principal Life or its agent, shall be voted in accordance with the instructions of an independent fiduciary for such separate account. The independent fiduciary shall instruct that such shares be voted in a way that, in the independent fiduciary's judgment, would be in the best interest of the participants and beneficiaries of the benefits plans of Qualified Plan Customers in whose interest such shares are held. The independent fiduciary shall carry out its fiduciary duties solely in the interest of the participants and beneficiaries of the plans that have invested (directly or indirectly) in the separate account formed pursuant to Section 7.3(d), in accordance with Section 404 and other provisions of Part 4 of Title I of ERISA, and pursuant to an investment policy that seeks to maximize the long-term investment returns of the separate account formed pursuant to Section 7.3(d).

8.10 GOVERNING LAW. The terms of the Plan shall be governed by and construed in accordance with the laws of the State of Iowa.

IN WITNESS WHEREOF, Principal Mutual Holding Company, by authority of its Board of Directors, has caused this Plan to be duly executed this 31st day of March, 2001.

PRINCIPAL MUTUAL HOLDING COMPANY

By: /s/ J. BARRY GRISWELL

J. Barry Griswell
President and Chief Executive Officer

Attest:

/s/ JOYCE N. HOFFMAN

Joyce N. Hoffman
Senior Vice President and Corporate Secretary

EXHIBIT A to the Plan of Conversion

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated _____, 2001 (the "Agreement") between Principal Mutual Holding Company, an Iowa mutual insurance holding company (to be converted into a stock company pursuant to Section 521A.14(5)(b) and Chapter 508B of Title XIII the Code of Iowa (2001)) (the "MIHC"), and Principal Iowa Newco, Inc., an Iowa stock corporation and indirect wholly-owned subsidiary of the MIHC (the "Intermediate Holding Company").

WHEREAS, the Board of Directors of the MIHC deems it advisable and in the best interest of the MIHC and its members that the MIHC convert into a stock company and merge with and into the Intermediate Holding Company, an Iowa stock corporation and wholly-owned subsidiary of Principal Financial Group, Inc., a Delaware corporation and wholly-owned subsidiary of the MIHC (the "Holding Company"), with the Intermediate Holding Company as the surviving corporation;

WHEREAS, the MIHC has caused the Holding Company and the Intermediate Holding Company to be organized as newly-formed direct and indirect subsidiaries of the MIHC for the purpose of merging the MIHC, Principal Financial Group, Inc., an Iowa stock corporation and wholly-owned subsidiary of the MIHC ("Group"), and Principal Financial Services, Inc., an Iowa stock corporation and wholly-owned subsidiary of Group ("Services"), with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation;

WHEREAS, pursuant to the Plan of Conversion dated March 31, 2001 (the "Plan"), Eligible Policyholders, as defined in the Plan, are receiving stock of the Holding Company, cash or policy credits in exchange for their membership interests in the MIHC which are being extinguished under the Plan;

WHEREAS, the Board of Directors of the Intermediate Holding Company deems it advisable and in the best interest of the Intermediate Holding Company and its stockholder that Group merge with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation;

WHEREAS, the Board of Directors of the Intermediate Holding Company deems it advisable and in the best interest of the Intermediate Holding Company and its stockholder that Services merge with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation, and that the Intermediate Holding Company change its name to "Principal Financial Services, Inc.";

WHEREAS, the Board of Directors of the MIHC has approved and has recommended that the Voting Policyholders, as defined in the Plan, approve the Plan, pursuant to which the MIHC shall convert into a stock company and the MIHC, Group and Services shall merge with and into the Intermediate Holding Company upon the terms and subject to the conditions set forth herein (the "Mergers");

WHEREAS, the Board of Directors of the Intermediate Holding Company has approved the mergers of Group and Services with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation, each upon the terms and subject to the conditions set forth herein; and

WHEREAS, for U.S. Federal income tax purposes, it is intended that this Agreement be a "plan of reorganization" within the meaning of Section 368 of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

ARTICLE I

MERGERS

Section 1.1 The Mergers. Upon the terms and subject to the conditions of this Agreement, and in accordance with Section 521A.14(5)(b) and Chapter 508B of Title XIII of the Code of Iowa (2001) and the applicable provisions of the Iowa Business Corporation Act (the "IBCA"), the MIHC shall convert into a stock company and shall be merged with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation. Following the merger of the converted MIHC with and into the Intermediate Holding Company, Group shall be merged with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation, upon the terms and subject to the conditions of this Agreement, and in accordance with Section 490.1104 of the IBCA and the Code of Iowa (2001). Following the merger of Group with and into the Intermediate Holding Company, Services shall be merged with and into the Intermediate Holding Company, with the Intermediate Holding Company as the surviving corporation, and the Intermediate Holding Company shall change its name to "Principal Financial Services, Inc.," upon the terms and subject to the conditions of this Agreement, and in accordance with Section 490.1104 of the IBCA and the Code of Iowa (2001). The Mergers shall become effective at the Effective Time (as defined in Section 1.2 below). Following the Mergers, the separate corporate existences of the MIHC, Group and Services shall cease and the

Intermediate Holding Company shall continue under the name "Principal Financial Services, Inc." as the surviving corporation (the "Surviving Corporation") and shall succeed to all of the assets, liabilities, rights, title and interests of each of the MIHC, Group and Services.

Section 1.2 Effective Time of the Mergers. The Mergers shall become effective at the date and time set forth in properly executed articles of merger (the "Effective Time"), which articles of merger shall be duly filed with the Secretary of State of the State of Iowa by the Surviving Corporation.

ARTICLE II

SURVIVING CORPORATION

Section 2.1 Articles of Incorporation. The Articles of Incorporation of the Surviving Corporation shall be as set forth in the form of Articles of Incorporation attached as Exhibit D to the Plan until thereafter changed or amended as provided therein or by applicable law.

Section 2.2 By-Laws. The By-Laws of the Surviving Corporation shall be as set forth in the form of By-Laws attached as Exhibit E to the Plan until thereafter changed or amended as provided therein or by applicable law.

Section 2.3 Directors and Officers. The directors and officers of the Intermediate Holding Company immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation. The directors and officers of the Surviving Corporation shall hold office until their respective successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Articles of Incorporation and By-Laws of the Surviving Corporation.

ARTICLE III

COMMON STOCK OF GROUP AND SERVICES

Section 3.1 Common stock of Group and Services. At the Effective Time, by virtue of the Mergers, each share of common stock of Group and each share of common stock of Services issued and outstanding immediately prior to the Effective Time shall be cancelled and retired, and shall cease to exist, without any conversion thereof.

ARTICLE IV

CONDITIONS TO MERGERS

Section 4.1 Conditions to the Mergers. The obligations of the MIHC and the Intermediate Holding Company to consummate the Mergers are subject to the satisfaction, at or prior to the Effective Time, of each of the following conditions:

(a) Voting Policyholder approval. The Plan and the transactions contemplated thereby, including this Agreement, shall have been approved and adopted by the requisite vote of the Voting Policyholders in accordance with the Plan or applicable laws;

(b) Effectiveness of the Plan. All conditions precedent to the effectiveness of the Plan, including the approval of the Insurance Commissioner of the State of Iowa, shall have been satisfied and the Plan shall have become effective or will become effective on the same date as the Effective Time;

(c) No injunctions. The consummation of the Mergers shall not be precluded by any bona fide order, decree or injunction of any federal or state court of the United States, and there shall not have been any action taken or any law enacted, promulgated or deemed applicable to the Mergers by any governmental entity that makes consummation of the Mergers illegal;

(d) Filings. All filings with, and all actions by or in respect of, any governmental body, agency, official or authority required to permit the consummation of the Mergers shall have been completed.

ARTICLE V

ADDITIONAL PROVISIONS

Section 5.1 Amendment. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

Section 5.2 Costs and Expenses. All costs related to the Mergers shall be borne by the MIHC or the Holding Company.

Section 5.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Iowa without giving effect to the conflicts of law principles thereof.

Section 5.4 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which shall together constitute one and the same agreement.

EXHIBIT B to the Plan of Conversion

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

PRINCIPAL FINANCIAL GROUP, INC.

ARTICLE I

NAME OF CORPORATION

The name of the corporation is Principal Financial Group, Inc. (the "Corporation").

ARTICLE II

REGISTERED OFFICE

The Corporation's registered office in the State of Delaware is at 1209 N. Orange Street, City of Wilmington, County of Newcastle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

PURPOSE

The nature of the business of the Corporation and its purpose is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

STOCK

Section 1. Authorized Stock. The aggregate number of shares of stock that the Corporation shall have authority to issue is _____ shares of common stock, par value $____ per share (the "Common Stock"), and _____ shares of preferred stock, par value $____ per share (the "Preferred Stock"). The number of authorized shares of the Common Stock and the Preferred Stock or any other class of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the combined voting power of the outstanding shares of stock of the Corporation entitled to vote thereon, and, irrespective of Section 242(b)(2) of the Delaware General Corporation Law, no vote of the holders of any of the Common Stock, the Preferred Stock or any other class of stock, voting separately as a class, shall be required therefor.

EXHIBIT B to the Plan of Conversion

Section 2. Preferred Stock.

(a) The Preferred Stock may be issued at any time and from time to time in one or more series. The Board of Directors is hereby authorized to provide for the issuance of shares of Preferred Stock in series and, by filing a certificate of designation pursuant to the applicable provisions of the General Corporation Law of the State of Delaware (hereinafter referred to as a "Preferred Stock Certificate of Designation"), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of shares of each such series and the qualifications, limitations and restrictions thereof.

(b) The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

(i) the designation of the series, which may be by distinguishing number, letter or title;

(ii) the number of shares of the series, which number the Board of Directors may thereafter (except where otherwise provided in the applicable Preferred Stock Certificate of Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(iii) whether dividends, if any, shall be cumulative or noncumulative and the dividend rate of the series;

(iv) whether dividends, if any, shall be payable in cash, in kind or otherwise;

(v) the dates on which dividends, if any, shall be payable;

(vi) the redemption rights and price or prices, if any, for shares of the series;

(vii) the terms and amount of any sinking fund provided for the purchase or redemption of shares of the series;

(viii) the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(ix) whether the shares of the series shall be convertible or exchangeable into shares of any other class or series, or any other security, of the Corporation or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates as of which such shares shall

be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made;

(x) restrictions on the issuance of shares of the same series or of any other class or series; and

(xi) whether or not the holders of the shares of such series shall have voting rights, in addition to the voting rights provided by law, and if so, the terms of such voting rights, which may provide, among other things and subject to the other provisions of this Amended and Restated Certificate of Incorporation, that each share of such series shall carry one vote or more or less than one vote per share, that the holders of such series shall be entitled to vote on certain matters as a separate class (which for such purpose may be comprised solely of such series or of such series and one or more other series or classes of stock of the Corporation) and that all the shares of such series entitled to vote on a particular matter shall be deemed to be voted on such matter in the manner that a specified portion of the voting power of the shares of such series or separate class are voted on such matter.

(c) The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof.

(d) Subject to the rights of the holders of any series of Preferred Stock, the number of authorized shares of any series of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by resolution of the Board of Directors and approved by the affirmative vote of the holders of a majority of the voting power of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote on such matter irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware or any corresponding provision hereafter enacted, with such outstanding shares of Common Stock and other stock considered for this purpose a single class.

(e) Except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation or to a Preferred Stock Certificate of Designation that alters or changes the powers, preferences, rights or other terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other series of Preferred Stock, to vote thereon as a separate class pursuant to this Amended and Restated Certificate of Incorporation or a Preferred Stock Certificate of Designation or pursuant to the General Corporation Law of the State of Delaware as currently in effect or as the same may hereafter be amended.

Section 3. Voting in Election of Directors. Except as may be required by law or as provided in this Amended and Restated Certificate of Incorporation or in a Preferred Stock Certificate of Designation, holders of Common Stock shall have the exclusive right to vote for the election of Directors and for all other purposes, and holders of Preferred Stock shall not be entitled to vote on any matter or receive notice of any meeting of stockholders.

Section 4. Owner. The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

Section 5. Shareholder Rights Plans. The Board of Directors is hereby authorized to create and issue, whether or not in connection with the issuance and sale of any of the Corporation's stock or other securities or property, rights entitling the holders thereof to purchase from the Corporation shares of stock or other securities of the Corporation or any other corporation. The times at which and the terms upon which such rights are to be issued will be determined by the Board of Directors and set forth in the contracts or instruments that evidence such rights. The authority of the Board of Directors with respect to such rights shall include, but not be limited to, determination of the following:

(a) the initial purchase price per share or other unit of the stock or other securities or property to be purchased upon exercise of such rights;

(b) provisions relating to the times at which and the circumstances under which such rights may be exercised or sold or otherwise transferred, either together with or separately from, any other stock or other securities of the Corporation;

(c) provisions which adjust the number or exercise price of such rights, or amount or nature of the stock or other securities or property receivable upon exercise of such rights, in the event of a combination, split or recapitalization of any stock of the Corporation, a change in ownership of the Corporation's stock or other securities or a reorganization, merger, consolidation, sale of assets or other occurrence relating to the Corporation or any stock of the Corporation, and provisions restricting the ability of the Corporation to enter into any such transaction absent an assumption by the other party or parties thereto of the obligations of the Corporation under such rights;

(d) provisions which deny the holder of a specified percentage of the outstanding stock or other securities of the Corporation the right to

exercise such rights and/or cause the rights held by such holder to become void;

(e) provisions which permit the Corporation to redeem such rights; and

(f) the appointment of a rights agent with respect to such rights.

ARTICLE V

BOARD OF DIRECTORS;
MANAGEMENT OF THE CORPORATION

Section 1. Classified Board. The Directors of the Corporation, subject to the rights of the holders of shares of any class or series of Preferred Stock, shall be classified with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the By-laws of the Corporation, one class ("Class I") whose initial term expires at the 2002 annual meeting of stockholders, another class ("Class II") whose initial term expires at the 2003 annual meeting of stockholders, and another class ("Class III") whose initial term expires at the 2004 annual meeting of stockholders, with each class to hold office until its successors are elected and qualified. At each annual meeting of stockholders of the Corporation, the date of which will be fixed pursuant to the By-Laws of the Corporation, and subject to the rights of the holders of shares of any class or series of Preferred Stock, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

Section 2. Director Discretion. In determining what he or she reasonably believes to be in the best interests of the Corporation in the performance of his or her duties as a director, a Director may consider, to the extent permitted by law, both in the consideration of tender and exchange offers, mergers, consolidations and sales of all or substantially all of the Corporation's assets and otherwise, such factors as the Board of Directors determines to be relevant, including without limitation:

(a) the interests of the policyholders of the Corporation's subsidiaries;

(b) the long-term and short-term interests of the Corporation and its stockholders, including the possibility that the interests may be best served by the continued independence of the Corporation;

(c) whether the proposed transaction might violate state or federal laws;

(d) if applicable, not only the consideration being offered in a proposed transaction, in relation to the then current market price for the outstanding capital stock of the Corporation over a period of years, the estimated price that might be achieved in a negotiated sale of the Corporation as a whole or in part through orderly liquidation, the premiums over market price for

the securities of other Corporations in similar transactions, current political, economic and other factors bearing on securities prices and the Corporation's financial condition and future prospects; and

(e) the interests of the Corporation's employees, suppliers, creditors and customers, the economy of the state, region and nation, and community and societal considerations.

In connection with any such evaluation, the Board of Directors is authorized to conduct such investigations and to engage in such legal proceedings as the Board of Directors may determine.

Section 3. Management of Business. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation and for the purpose of creating, defining, limiting and regulating the powers of the Corporation and its Directors and stockholders:

(a) Subject to the rights of any holders of any series of Preferred Stock, if any, to elect additional Directors under specified circumstances, the holders of a majority of the combined voting power of the then outstanding stock of the Corporation entitled to vote generally in the election of Directors may remove any Director or the entire Board of Directors, but only for cause.

(b) Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause and newly created Directorships resulting from any increase in the authorized number of Directors shall be filled in the manner provided in the By-Laws of the Corporation.

(c) Advance notice of nominations for the election of Directors shall be given in the manner and to the extent provided in the By-Laws of the Corporation.

(d) The election of Directors may be conducted in any manner approved by the Board of Directors at the time when the election is held and need not be by written ballot.

(e) All corporate powers and authority of the Corporation (except as at the time otherwise provided by law, by this Amended and Restated Certificate of Incorporation or by the By-Laws) shall be vested in and exercised by the Board of Directors.

(f) The Board of Directors shall have the power without the assent or vote of the stockholders to adopt, amend, alter or repeal the By-Laws of the Corporation, except to the extent that the By-Laws or this Amended and Restated Certificate of Incorporation otherwise provide. In addition to any requirements of law and any other provision of this Amended and Restated Certificate of Incorporation, the stockholders of the Corporation

may adopt, amend, alter or repeal any provision of the By-Laws upon the affirmative vote of the holders of three-fourths (3/4) or more of the combined voting power of the then outstanding stock of the Corporation entitled to vote generally in the election of Directors.

ARTICLE VI

LIABILITY OF DIRECTORS

Section 1. General. No Director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty as a Director, except to the extent that such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as currently in effect or as the same may hereafter be amended.

Section 2. Repeal or Modification. Any repeal or modification of this Article VI by the stockholders of the Corporation shall not adversely affect any right or protection of a Director, officer or the Corporation existing at the time of such repeal or modification. If the General Corporation Law of the State of Delaware is amended after the filing of this Amended and Restated Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of Directors, then the liability of a Director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

ARTICLE VII

NO STOCKHOLDER ACTIONS BY WRITTEN CONSENT

Effective as of the time the Common Stock shall be registered pursuant to the provisions of the Securities Exchange Act of 1934, as amended, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is specifically denied.

ARTICLE VIII

PROHIBITION ON ACQUISITION OF SECURITIES

Pursuant to Section 13 of Chapter 508B of Title XIII of the Code of Iowa (2001), a person shall not directly or indirectly acquire or offer to acquire the beneficial ownership of more than five percent of any class of voting security of the Corporation for a period of five years following the effective date of the conversion of Principal Mutual Holding Company from a mutual insurance holding company into a stock company pursuant to the Plan of Conversion adopted March 31, 2001, without the prior approval of the Insurance Commissioner of the State of Iowa and the Board of Directors of the reorganized company. For the purposes of this Article IX, the term "beneficial ownership" has the meaning set forth in Section 13 of Chapter 508B of Title XIII of the

Code of Iowa (2001) and the term "reorganized company" has the meaning set forth in Section 1 of Chapter 508B of Title XIII of the Code of Iowa (2001).

ARTICLE IX

AMENDMENT

The Corporation reserves the right to amend or repeal any provision contained in this Amended and Restated Certificate of Incorporation in the manner now or hereafter prescribed by the laws of the State of Delaware, and all rights herein conferred upon stockholders or Directors (in the present form of this Amended and Restated Certificate of Incorporation or as hereinafter amended) are granted subject to this reservation; provided, however, that any amendment or repeal of Article VI of this Amended and Restated Certificate of Incorporation shall not adversely affect any right or protection existing hereunder immediately prior to such amendment or repeal; and, provided, further, that Articles V, VI, VII, VIII or IX of this Amended and Restated Certificate of Incorporation shall not be amended, altered or repealed without the affirmative vote of the holders of at least three-fourths (3/4) of the combined voting power of the then outstanding stock of the Corporation entitled to vote generally in the election of Directors.

BY-LAWS

OF

PRINCIPAL FINANCIAL GROUP, INC.

As Adopted on , 2001

EXHIBIT C to the Plan of Conversion

PRINCIPAL FINANCIAL GROUP, INC.
BY-LAWS

TABLE OF CONTENTS

SECTION		PAGE
ARTICLE I	STOCKHOLDERS	
Section 1.01.	Annual Meetings	5
Section 1.02.	Special Meetings	5
Section 1.03.	Notice of Meetings; Waiver	5
Section 1.04.	Quorum	3
Section 1.05.	Voting	3
Section 1.06.	Voting by Ballot	3
Section 1.07.	Adjournment	3
Section 1.08.	Proxies	3
Section 1.09.	Organization; Procedure	4
Section 1.10.	Notice of Stockholder Business and Nominations	4
Section 1.11.	Inspectors of Elections	7
Section 1.12.	Opening and Closing of Polls	8
Section 1.13.	No Stockholder Action by Written Consent	8
ARTICLE II	BOARD OF DIRECTORS	
Section 2.01.	General Powers	8
Section 2.02.	Number of Directors	8
Section 2.03.	Classified Board of Directors; Election of Directors	8
Section 2.04.	The Chairman of the Board	9
Section 2.05.	Annual and Regular Meetings	9
Section 2.06.	Special Meetings; Notice	9
Section 2.07.	Quorum; Voting	10
Section 2.08.	Adjournment	10
Section 2.09.	Action Without a Meeting	10
Section 2.10.	Regulations; Manner of Acting	10
Section 2.11.	Action by Telephonic Communications	11
Section 2.12.	Resignations	11
Section 2.13.	Removal of Directors	11
Section 2.14.	Vacancies and Newly Created Directorships	11
Section 2.15.	Compensation	11
Section 2.16.	Reliance on Accounts and Reports, etc	12
ARTICLE III	EXECUTIVE COMMITTEE AND OTHER COMMITTEES	
Section 3.01.	Executive Committee	12

Section 3.02. Powers of Executive Committee.....12
Section 3.03. Other Committees.....12
Section 3.04. Powers.....13
Section 3.05. Proceedings.....13
Section 3.06. Quorum and Manner of Acting.....13
Section 3.07. Action by Telephonic Communications.....13
Section 3.08. Absent or Disqualified Members.....14
Section 3.09. Resignations.....14
Section 3.10. Removal.....14
Section 3.11. Vacancies.....14

ARTICLE IV OFFICERS
Section 4.01. Chief Executive Officer.....14
Section 4.02. Secretary of the Corporation.....14
Section 4.03. Other Officers Elected by Board of Directors.....15
Section 4.04. Other Officers.....15
Section 4.05. Salaries.....15
Section 4.06. Removal and Resignation; Vacancies.....15
Section 4.07. Authority and Duties of Officers.....15

ARTICLE V CAPITAL STOCK
Section 5.01. Certificates of Stock, Uncertificated Shares.....15
Section 5.02. Signatures; Facsimile.....16
Section 5.03. Lost, Stolen or Destroyed Certificates.....16
Section 5.04. Transfer of Stock.....16
Section 5.05. Record Date.....16
Section 5.06. Registered Stockholders.....17
Section 5.07. Transfer Agent and Registrar.....17

ARTICLE VI INDEMNIFICATION
Section 6.01. Nature of Indemnity.....17
Section 6.02. Successful Defense.....18
Section 6.03. Determination that Indemnification is Proper.....18
Section 6.04. Advance Payment of Expenses.....19
Section 6.05. Procedure for Indemnification of Directors and Officers....19
Section 6.06. Survival; Preservation of Other Rights.....20
Section 6.07. Insurance.....20
Section 6.08. Severability.....20

ARTICLE VII OFFICES
Section 7.01. Initial Registered Office.....21
Section 7.02. Other Offices.....21

ARTICLE VIII GENERAL PROVISIONS
Section 8.01. Dividends.....21
Section 8.02. Reserves.....22
Section 8.03. Execution of Instruments.....22
Section 8.04. Corporate Indebtedness.....22
Section 8.05. Disposition of Funds.....22
Section 8.06. Sale, Transfer, etc. of Securities.....22
Section 8.07. Voting as Stockholder.....23
Section 8.08. Fiscal Year.....23
Section 8.09. Seal.....23
Section 8.10. Books and Records; Inspection.....23

ARTICLE IX AMENDMENT OF BY-LAWS
Section 9.01. Amendment.....23

ARTICLE X CONSTRUCTION
Section 10.01. Construction.....24

PRINCIPAL FINANCIAL GROUP, INC.

BY-LAWS

As adopted on , 2001

ARTICLE I

STOCKHOLDERS

Section 1.01. Annual Meetings. The annual meeting of the stockholders of the Corporation for the election of Directors and for the transaction of such other business as properly may come before such meeting shall be held at such place, either within or without the State of Delaware, or, within the sole discretion of the Board of Directors, by remote electronic communication technologies and at such date and at such time, as may be fixed from time to time by resolution of the Board of Directors and set forth in the notice or waiver of notice of the meeting.

Section 1.02. Special Meetings. Special meetings of the stockholders may be called at any time by the Chairman of the Board, Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any Executive Vice President), or by the Board of Directors. A special meeting shall be called by the Chairman of the Board, Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any Executive Vice President), or by the Secretary of the Corporation pursuant to a resolution approved by a majority of the entire Board of Directors. Such special meetings of the stockholders shall be held at such places, within or without the State of Delaware, or, within the sole discretion of the Board of Directors, by remote electronic communication technologies, as shall be specified in the respective notices or waivers of notice thereof. Any power of the stockholders of the Corporation to call a special meeting is specifically denied.

Section 1.03. Notice of Meetings; Waiver.

(a) The Secretary of the Corporation or any Assistant Secretary shall cause written notice of the place, if any, date and hour of each meeting of the stockholders, and, in the case of a special meeting, the purpose or purposes for which such meeting is called, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, to be given personally by mail or by electronic transmission, not fewer than ten (10) nor more than sixty (60) days prior to the meeting, to each stockholder of record entitled to vote at

(b) such meeting. If such notice is mailed, it shall be deemed to have been given personally to a stockholder when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the record of stockholders of the Corporation, or, if a stockholder shall have filed with the Secretary of the Corporation a written request that notices to such stockholder be mailed to some other address, then directed to such stockholder at such other address. Such further notice shall be given as may be required by law.

(c) A written waiver of any notice of any annual or special meeting signed by the person entitled thereto, or a waiver by electronic transmission by the person entitled to notice, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders need be specified in a written waiver of notice. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

(d) For notice given by electronic transmission to a stockholder to be effective, such stockholder must consent to the Corporation's giving notice by that particular form of electronic transmission. A stockholder may revoke consent to receive notice by electronic transmission by written notice to the Corporation. A stockholder's consent to notice by electronic transmission is automatically revoked if the Corporation is unable to deliver two consecutive electronic transmission notices and such inability becomes known to the Secretary of the Corporation, any Assistant Secretary, the transfer agent or other person responsible for giving notice.

(e) Notices are deemed given (i) if by facsimile, when faxed to a number where the stockholder has consented to receive notice; (ii) if by electronic mail, when mailed electronically to an electronic mail address at which the stockholder has consented to receive such notice; (iii) if by posting on an electronic network (such as a website or chatroom) together with a separate notice to the stockholder of such specific posting, upon the later to occur of (A) such posting or (B) the giving of the separate notice of such posting; or (iv) if by any other form of electronic communication, when directed to the stockholder in the manner consented to by the stockholder.

(f) If a stockholder meeting is to be held via electronic communications and stockholders will take action at such meeting, the notice of such meeting must: (i) specify the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present and vote at such meeting; and (ii) provide the information required to access the stockholder list. A waiver of notice may be given by electronic transmission.

Section 1.04. Quorum. Except as otherwise required by law or by the Certificate of Incorporation, the presence in person or by proxy of the holders of record of one-third of the shares entitled to vote at a meeting of stockholders shall constitute a quorum for the transaction of business at such meeting.

Section 1.05. Voting. If, pursuant to Section 5.05 of these By-Laws, a record date has been fixed, every holder of record of shares entitled to vote at a meeting of stockholders shall be entitled to one (1) vote for each share outstanding in his or her name on the books of the Corporation at the close of business on such record date. If no record date has been fixed, then every holder of record of shares entitled to vote at a meeting of stockholders shall be entitled to one (1) vote for each share of stock standing in his or her name on the books of the Corporation at the close of business on the day next preceding the day on which notice of the meeting is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. Except as otherwise required by law, the Certificate of Incorporation or these By-Laws, the vote of a majority of the shares represented in person or by proxy at any meeting at which a quorum is present shall be sufficient for the transaction of any business at such meeting.

Section 1.06. Voting by Ballot. No vote of the stockholders on an election of Directors need be taken by written ballot or by electronic transmission unless otherwise required by law. Any vote not required to be taken by ballot or by electronic transmission may be conducted in any manner approved by the Board of Directors prior to the meeting at which such vote is taken.

Section 1.07. Adjournment. If a quorum is not present at any meeting of the stockholders, the stockholders present in person or by proxy shall have the power to adjourn any such meeting from time to time until a quorum is present. Notice of any adjourned meeting of the stockholders of the Corporation need not be given if the place, if any, date and hour thereof are announced at the meeting at which the adjournment is taken, provided, however, that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date for the adjourned meeting is fixed pursuant to Section 5.05 of these By-Laws, a notice of the adjourned meeting, conforming to the requirements of Section 1.03 hereof, shall be given to each stockholder of record entitled to vote at such meeting. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted on the original date of the meeting.

Section 1.08. Proxies. Any stockholder entitled to vote at any meeting of the stockholders may authorize another person or persons to vote at any such meeting and express such consent or dissent for him or her by proxy. A stockholder may authorize a valid proxy by executing a written instrument signed by such stockholder, or by causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature, or by transmitting or authorizing the transmission

of a telegram, cablegram or other means of electronic transmission to the person designated as the holder of the proxy, a proxy solicitation firm or a like authorized agent. No such proxy shall be voted or acted upon after the expiration of three years from the date of such proxy, unless such proxy provides for a longer period. Every proxy shall be revocable at the pleasure of the stockholder executing it, except in those cases where applicable law provides that a proxy shall be irrevocable. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing with the Secretary of the Corporation either an instrument in writing revoking the proxy or another duly executed proxy bearing a later date. Proxies by telegram, cablegram or other electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. Any copy, facsimile telecommunication or other reliable reproduction of a writing or transmission created pursuant to this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 1.09. Organization; Procedure. At every meeting of stockholders the presiding officer shall be the Chairman of the Board or, in the event of his or her absence or disability, a presiding officer chosen by the Board of Directors. The Secretary of the Corporation, or in the event of his or her absence or disability, an Assistant Secretary, if any, or if there be no Assistant Secretary, in the absence of the Secretary of the Corporation, an appointee of the presiding officer, shall act as Secretary of the meeting. The order of business and all other matters of procedure at every meeting of stockholders may be determined by such presiding officer.

Section 1.10. Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders.

(i) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (A) by or at the direction of the Board of Directors or the Chairman of the Board, or (B) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in clauses (ii) and (iii) of this paragraph and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(ii) For nominations or other business to be properly brought before an annual meeting by a stockholder, pursuant to clause (B) of paragraph (a)(i) of this Section 1.10, the stockholder must have given timely notice thereof in writing or

by electronic transmission to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not fewer than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting and in any event at least forty-five (45) days prior to the first anniversary of the date on which the registrant first mailed its proxy materials for the prior year's annual meeting of shareholders; provided, that if the date of the annual meeting is advanced by more than thirty (30) days or delayed by more than seventy (70) days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than one hundred twenty (120) days prior to such annual meeting and not later than the close of business on the later of the ninetieth day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. In no event shall the adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a Director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder, or any successor provisions, including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected; (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and of any beneficial owner on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and any beneficial owner on whose behalf the nomination or proposal is made (1) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (2) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 1.10 to the contrary, in the event that the number of Directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice under this paragraph shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the

tenth day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Stockholders. Only such business as shall have been brought before the special meeting of the stockholders pursuant to the Corporation's notice of meeting pursuant to Section 1.03 of these By-Laws shall be conducted at such meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Section 1.10 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such special meeting of stockholders if the stockholder's notice as required by paragraph (a)(ii) of this Section 1.10 shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not earlier than the one hundred and twentieth (120(th)) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90(th)) day prior to such special meeting or the tenth (10(th)) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(c) General.

(i) Only persons who are nominated in accordance with the procedures set forth in this Section 1.10 shall be eligible to serve as Directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.10. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 1.10 and, if any proposed nomination or business is not in compliance with this Section 1.10, to declare that such defective proposal or nomination shall be disregarded.

(ii) For purposes of this Section 1.10, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this Section 1.10, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.10. Nothing in this Section 1.10 shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act, or (B) of the holders of any series of Preferred Stock, if any, to elect Directors if so provided under any applicable Preferred Stock Certificate of Designation (as defined in the Certificate of Incorporation).

Section 1.11. Inspectors of Elections. Preceding any meeting of the stockholders, the Board of Directors shall appoint one (1) or more persons to act as Inspectors of Elections, and may designate one (1) or more alternate inspectors. In the event no inspector or alternate is able to act, the person presiding at the meeting shall appoint one (1) or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of the duties of an inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector shall:

(a) ascertain the number of shares outstanding and the voting power of each;

(b) determine the shares represented at a meeting and the validity of proxies and ballots;

(c) specify the information relied upon to determine the validity of electronic transmissions in accordance with Section 1.08 hereof;

(d) count all votes and ballots;

(e) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and

(f) certify his or her determination of the number of shares represented at the meeting, and his or her count of all votes and ballots;

(g) appoint or retain other persons or entities to assist in the performance of the duties of inspector; and

(h) when determining the shares represented and the validity of proxies and ballots, be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with Section 1.08 of these By-Laws, ballots and the regular books and records of the Corporation. The inspector may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers or their nominees or a similar person which

represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspector considers other reliable information as outlined in this section, the inspector, at the time of his or her certification pursuant to paragraph (f) of this section, shall specify the precise information considered, the person or persons from whom the information was obtained, when this information was obtained, the means by which the information was obtained, and the basis for the inspector's belief that such information is accurate and reliable.

Section 1.12. Opening and Closing of Polls. The date and time for the opening and the closing of the polls for each matter to be voted upon at a stockholder meeting shall be announced at the meeting. The inspector shall be prohibited from accepting any ballots, proxies or votes or any revocations thereof or changes thereto after the closing of the polls, unless the Court of Chancery upon application by a stockholder shall determine otherwise.

Section 1.13. No Stockholder Action by Written Consent. Effective as of the time the Common Stock shall be registered pursuant to the provisions of the Exchange Act, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is specifically denied.

ARTICLE II

BOARD OF DIRECTORS

Section 2.01. General Powers. Except as may otherwise be provided by law, the Certificate of Incorporation or these By-Laws, the property, affairs and business of the Corporation shall be managed by or under the direction of the Board of Directors and the Board of Directors may exercise all the powers of the Corporation.

Section 2.02. Number of Directors. Subject to the rights of the holders of any class or series of Preferred Stock, if any, the number of Directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the entire Board of Directors; provided, however, that the Board of Directors shall at no time consist of fewer than three (3) Directors.

Section 2.03. Classified Board of Directors; Election of Directors. The Directors of the Corporation, subject to the rights of the holders of shares of any class or series of Preferred Stock, shall be classified with respect to the time for which they severally hold office, into three (3) classes, as nearly equal in number as possible, one class ("Class I") whose initial term expires at the 2002 annual meeting of stockholders, another class

("Class II") whose initial term expires at the 2003 annual meeting of stockholders, and another class ("Class III") whose initial term expires at the 2004 annual meeting of stockholders, with each class to hold office until its successors are elected and qualified. Except as otherwise provided in Sections 2.12 and 2.13 of these By-Laws, at each annual meeting of stockholders of the Corporation, and subject to the rights of the holders of shares of any class or series of Preferred Stock, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

Section 2.04. The Chairman of the Board. The Directors shall elect from among the members of the Board a "Chairman of the Board". The Chairman of the Board shall be an deemed an officer of the Corporation and shall have such duties and powers as set forth in these By-Laws or as shall otherwise be conferred upon the Chairman of the Board from time to time by the Board of Directors. The Chairman of the Board shall, if present, preside over all meetings of the Stockholders and of the Board of Directors. The Board of Directors shall by resolution establish a procedure to provide for an acting Chairman of the Board in the event the current Chairman of the Board is unable to serve or act in that capacity.

Section 2.05. Annual and Regular Meetings. The annual meeting of the Board of Directors for the purpose of electing officers and for the transaction of such other business as may come before the meeting shall be held as soon as reasonably practicable following adjournment of the annual meeting of the stockholders at the place of such annual meeting of the stockholders. Notice of such annual meeting of the Board of Directors need not be given. The Board of Directors from time to time may by resolution provide for the holding of regular meetings and fix the place (which may be within or without the State of Delaware) and the date and hour of such meetings. Notice of regular meetings need not be given, provided, however, that if the Board of Directors shall fix or change the time or place of any regular meeting, notice of such action shall be mailed promptly, or sent by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, to each Director who shall not have been present at the meeting at which such action was taken, addressed to him or her at his or her usual place of business, or shall be delivered to him or her personally. Notice of such action need not be given to any Director who attends the first regular meeting after such action is taken without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any Director who submits a signed waiver of notice, whether before or after such meeting.

Section 2.06. Special Meetings; Notice. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, Chief Executive Officer (or, in the event of his or her absence or disability, by the President or any

Executive Vice President), or by the Board of Directors, at such place (within or without the State of Delaware), date and hour as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board of Directors also may be held whenever called pursuant to a resolution approved by a majority of the entire Board of Directors. Special meetings of the Board of Directors may be called on twenty- four (24) hours' notice, if notice is given to each Director personally or by telephone, including a voice messaging system, or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, or on five (5) days' notice, if notice is mailed to each Director, addressed to him or her at his or her usual place of business or to such other address as any Director may request by notice to the Secretary. Notice of any special meeting need not be given to any Director who attends such meeting without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any Director who submits a signed waiver of notice, whether before or after such meeting, and any business may be transacted thereat.

Section 2.07. Quorum; Voting. At all meetings of the Board of Directors, the presence of at least a majority of the total authorized number of Directors shall constitute a quorum for the transaction of business. Except as otherwise required by law, the vote of at least a majority of the Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors.

Section 2.08. Adjournment. A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting of the Board of Directors to another time or place. No notice need be given of any adjourned meeting unless the time and place of the adjourned meeting are not announced at the time of adjournment, in which case notice conforming to the requirements of Section 2.05 of these By-Laws shall be given to each Director.

Section 2.09. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing or by electronic transmission, and such writing, writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 2.10. Regulations; Manner of Acting. To the extent consistent with applicable law, the Certificate of Incorporation and these By-Laws, the Board of Directors may adopt by resolution such rules and regulations for the conduct of meetings of the Board of Directors and for the management of the property, affairs and business of the Corporation as the Board of Directors may deem appropriate. The Directors shall act

only as a Board of Directors and the individual Directors shall have no power in their individual capacities unless expressly authorized by the Board of Directors.

Section 2.11. Action by Telephonic Communications. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

Section 2.12. Resignations. Any Director may resign at any time by submitting an electronic transmission or by delivering a written notice of resignation, signed by such Director, to the Chairman of the Board or the Secretary. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 2.13. Removal of Directors. Subject to the rights of the holders of any class or series of Preferred Stock, if any, to elect additional Directors under specified circumstances, any Director may be removed at any time, but only for cause, upon the affirmative vote of the holders of a majority of the combined voting power of the then outstanding stock of the Corporation entitled to vote generally in the election of Directors. Any vacancy in the Board of Directors caused by any such removal may be filled at such meeting by the stockholders entitled to vote for the election of the Director so removed. If such stockholders do not fill such vacancy at such meeting, such vacancy may be filled in the manner provided in Section 2.14 of these By-Laws.

Section 2.14. Vacancies and Newly Created Directorships. Subject to the rights of the holders of any class or series of Preferred Stock, if any, to elect additional Directors under specified circumstances, and except as provided in Section 2.13, if any vacancies shall occur in the Board of Directors, by reason of death, resignation, removal or otherwise, or if the authorized number of Directors shall be increased, the Directors then in office shall continue to act, and such vacancies and newly created directorships may be filled by a majority of the Directors then in office, although less than a quorum. Any director filling a vacancy shall be of the same class as that of the Director whose death, resignation, removal or other event caused the vacancy, and any Director filling a newly created directorship shall be of the class specified by the Board of Directors at the time the newly created directorships were created. A Director elected to fill a vacancy or a newly created directorship shall hold office until his or her successor has been elected and qualified or until his or her earlier death, resignation or removal.

Section 2.15. Compensation. The amount, if any, which each Director shall be entitled to receive as compensation for such Director's services as such shall be fixed from time to time by resolution of the Board of Directors.

Section 2.16. Reliance on Accounts and Reports, etc. A Director, or a member of any committee designated by the Board of Directors shall, in the performance of such Director's or member's duties, be fully protected in relying in good faith upon the records of the Corporation and upon information, opinions, reports or statements presented to the Corporation by any of the Corporation's officers or employees, or committees designated by the Board of Directors, or by any other person as to the matters the Director or the member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

ARTICLE III

EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 3.01. Executive Committee. The Board of Directors shall appoint an Executive Committee consisting of five (5) Directors. Members of the Executive Committee shall be appointed by and serve at the pleasure of the Board of Directors. The Chairman of the Board shall be a member of the Executive Committee and shall, if present, preside at each meeting of the Executive Committee. The Chief Executive Officer, if different than the Chairman of the Board, shall be a member of the Executive Committee and in the event of an absence or vacancy in the office of the Chairman of the Board, shall preside at meetings of the Executive Committee. If the Chairman of the Board is also the Chief Executive Officer, any other member of the Executive Committee, as determined by the members of the Executive Committee present, shall preside at a meeting of the Executive Committee in the absence of the Chairman of the Board. The Secretary shall act as secretary of the Executive Committee and shall keep a record of all proceedings of the Executive Committee. A majority of the members of the Executive Committee shall constitute a quorum.

Section 3.02. Powers of Executive Committee. The Executive Committee shall have and, to the extent permitted by law, may exercise all of the powers of the Board of Directors in the management and affairs of the corporation except when the Board of Directors is in session.

Section 3.03. Other Committees. The Board of Directors, by resolution adopted by the affirmative vote of a majority of Directors then in office, may establish one (1) or more other committees of the Board of Directors, each committee to consist of such number of Directors as from time to time may be fixed by the Board of Directors. Any such committee shall serve at the pleasure of the Board of Directors. Each such committee shall have the powers and duties delegated to it by the Board of Directors, subject to the limitations set forth in applicable Delaware law. The Board of Directors

may elect one or more of its members as alternate members of any such committee who may take the place of any absent member or members at any meeting of such committee, upon request of the Chairman of the Board or the Chairman of such committee.

Section 3.04. Powers. Each committee, except as otherwise provided in this section, shall have and may exercise such powers of the Board of Directors as may be provided by resolution or resolutions of the Board of Directors. Neither the Executive Committee nor any other committee shall have the power or authority:

(a) to approve or adopt, or recommend to the stockholders, any action or matter expressly required by the General Corporation Law to be submitted to the stockholders for approval; or

(b) to adopt, amend or repeal the By-Laws of the Corporation.

Section 3.05. Proceedings. Each such committee may fix its own rules of procedure and may meet at such place (within or without the State of Delaware), at such time and upon such notice, if any, as it shall determine from time to time. Each such committee shall keep minutes of its proceedings and shall report such proceedings to the Board of Directors at the meeting of the Board of Directors next following any such proceedings.

Section 3.06. Quorum and Manner of Acting. Except as may be otherwise provided in the resolution creating such committee, at all meetings of any committee, the presence of members (or alternate members) constituting a majority of the total authorized membership of such committee shall constitute a quorum for the transaction of business. The act of the majority of the members present at any meeting at which a quorum is present shall be the act of such committee. Any action required or permitted to be taken at any meeting of any such committee may be taken without a meeting, if all members of such committee shall consent to such action in writing or by electronic transmission and such writing, writings or electronic transmission or transmissions are filed with the minutes of the proceedings of the committee. Such filing shall be in paper form if the minutes are in paper form and shall be in electronic form if the minutes are maintained in electronic form. The members of any such committee shall act only as a committee, and the individual members of such committee shall have no power in their individual capacities unless expressly authorized by the Board of Directors.

Section 3.07. Action by Telephonic Communications. Unless otherwise provided by the Board of Directors, members of any committee may participate in a meeting of such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting.

Section 3.08. Absent or Disqualified Members. In the absence or disqualification of a member of any committee, if no alternate member is present to act in his or her stead, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Section 3.09. Resignations. Any member (and any alternate member) of any committee may resign at any time by delivering a written notice of resignation, signed by such member, to the Board of Directors or the Chairman of the Board. Unless otherwise specified therein, such resignation shall take effect upon delivery.

Section 3.10. Removal. Any member (and any alternate member) of any committee may be removed at any time, either for or without cause, by resolution adopted by a majority of the whole Board of Directors.

Section 3.11. Vacancies. If any vacancy shall occur in any committee, by reason of disqualification, death, resignation, removal or otherwise, the remaining members (and any alternate members) shall continue to act, and any such vacancy may be filled by the Board of Directors.

ARTICLE IV

OFFICERS

Section 4.01. Chief Executive Officer. The Board of Directors shall elect a Chief Executive Officer to serve at the pleasure of the Board of Directors who shall (a) supervise the carrying out of policies adopted or approved by the Board of directors, (b) exercise a general supervision and superintendence over all the business and affairs of the corporation, and (c) possess such other powers and perform such other duties as may be assigned to him or her by these By-Laws, as may from time to time be assigned by the Board of Directors and as may be incident to the office of Chief Executive Officer.

Section 4.02. Secretary of the Corporation. The Board of Directors shall appoint a Secretary of the Corporation to serve at the pleasure of the Board of Directors. The Secretary of the Corporation shall (a) keep minutes of all meetings of the stockholders and of the Board of Directors, (b) authenticate records of the corporation and (c) in general, have such powers and perform such other duties as may be assigned to him or her by these By-Laws, as may from time to time be assigned to him or her by the Board of directors or the Chief Executive Officer and as may be incident to the office of Secretary of the Corporation.

Section 4.03. Other Officers Elected by Board of Directors. At any meeting of the Board of Directors, the Board of Directors may elect a President, Vice Presidents, a Chief Financial Officer, a Treasurer, Assistant Treasurers, Assistant Secretaries, or such other officers of the corporation as the Board of Directors may deem necessary, to serve at the pleasure of the Board of Directors. Other officers elected by the Board of Directors shall have such powers and perform such duties as may be assigned to such officers by or pursuant to authorization of the Board of Directors or by the Chief Executive Officer.

Section 4.04. Other Officers. The Board of Directors may authorize the corporation to elect or appoint other officers, each of whom shall serve at the pleasure of the corporation. Officers elected or appointed by the corporation shall have such powers and perform such duties as may be assigned to them by the corporation.

Section 4.05. Salaries. The salaries of all officers and agents of the Corporation shall be fixed by or pursuant to authorization of the Board of Directors.

Section 4.06. Removal and Resignation; Vacancies. Any officer may be removed for or without cause at any time by the Board of Directors. Any officer may resign at any time by delivering a written notice of resignation, signed by such officer, to the Board of Directors or the Chief Executive Officer. Unless otherwise specified therein, such resignation shall take effect upon delivery. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise, shall be filled by or pursuant to authorization of the Board of Directors.

Section 4.07. Authority and Duties of Officers. The officers of the Corporation shall have such authority and shall exercise such powers and perform such duties as may be specified in these By-Laws, except that in any event each officer shall exercise such powers and perform such duties as may be required by law.

ARTICLE V

CAPITAL STOCK

Section 5.01. Certificates of Stock, Uncertificated Shares. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the Corporation shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until each such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock in the Corporation represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of, the Corporation, by the Chairman of the Board, the Chief Executive

Officer or the President, and by the Chief Financial Officer, the Treasurer or an Assistant Treasurer, or the Secretary of the Corporation or an Assistant Secretary, representing the number of shares registered in certificate form. Such certificate shall be in such form as the Board of Directors may determine, to the extent consistent with applicable law, the Certificate of Incorporation and these By-Laws.

Section 5.02. Signatures; Facsimile. All signatures on the certificate referred to in Section 5.01 of these By-Laws may be in facsimile, engraved or printed form, to the extent permitted by law. In case any officer, transfer agent or registrar who has signed, or whose facsimile, engraved or printed signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 5.03. Lost, Stolen or Destroyed Certificates. The Board of Directors may direct that a new certificate be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon delivery to the Corporation of an affidavit of the owner or owners of such certificate, setting forth such allegation. The Corporation may require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate.

Section 5.04. Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares, duly endorsed or accompanied by appropriate evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Within a reasonable time after the transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the laws of the General Corporation Law of the State of Delaware. Subject to the provisions of the Certificate of Incorporation and these By-Laws, the Board of Directors may prescribe such additional rules and regulations as it may deem appropriate relating to the issue, transfer and registration of shares of the Corporation.

Section 5.05. Record Date. In order to determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted by the Board of Directors, and which shall not be more than sixty (60) nor fewer than ten (10) days before the date of such meeting. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting,

provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights of the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 5.06. Registered Stockholders. Prior to due surrender of a certificate for registration of transfer, the Corporation may treat the registered owner as the person exclusively entitled to receive dividends and other distributions, to vote, to receive notice and otherwise to exercise all the rights and powers of the owner of the shares represented by such certificate, and the Corporation shall not be bound to recognize any equitable or legal claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have notice of such claim or interests. Whenever any transfer of shares shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer if, when the certificates are presented to the Corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and transferee request the Corporation to do so.

Section 5.07. Transfer Agent and Registrar. The Board of Directors may appoint one (1) or more transfer agents and one (1) or more registrars, and may require all certificates representing shares to bear the signature of any such transfer agents or registrars.

ARTICLE VI

INDEMNIFICATION

Section 6.01. Nature of Indemnity. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was or has agreed to become a director or officer of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as a director or officer, of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to

have been taken or omitted in such capacity, and may indemnify any person who was or is a party or is threatened to be made a party to such a Proceeding by reason of the fact that he or she is or was or has agreed to become an employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her or on his or her behalf in connection with such Proceeding and any appeal therefrom, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had no reasonable cause to believe his or her conduct was unlawful; except that in the case of a Proceeding by or in the right of the Corporation to procure a judgment in its favor (1) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such Proceeding, and (2) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. Notwithstanding the foregoing, but subject to Section 6.05 of these By-Laws, the Corporation shall not be obligated to indemnify a director or officer of the Corporation in respect of a Proceeding (or part thereof) instituted by such director or officer, unless such Proceeding (or part thereof) has been authorized by the Board of Directors.

The termination of any Proceeding by judgment, order settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 6.02. Successful Defense. To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any Proceeding referred to in Section 6.01 hereof or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 6.03. Determination that Indemnification is Proper. Any indemnification of a present or former director or officer of the Corporation under Section 6.01 hereof (unless ordered by a court) shall be made by the Corporation unless a determination is made that indemnification of the present or former director or officer is not proper in the

circumstances because he or she has not met the applicable standard of conduct set forth in Section 6.01 hereof. Any indemnification of a present or former employee or agent of the Corporation under Section 6.01 hereof (unless ordered by a court) may be made by the Corporation upon a determination that indemnification of the present or former employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 6.01 hereof. Any such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (1) by a majority vote of the Directors who are not parties to such Proceeding, even though less than a quorum, or (2) by a committee of such Directors designated by majority vote of such Directors, even though less than a quorum, or (3) if there are no such Directors, or if such Directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

Section 6.04. Advance Payment of Expenses. Expenses (including attorneys' fees) incurred by a director or officer in defending any civil, criminal, administrative or investigative Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate. The Board of Directors may authorize the Corporation's counsel to represent such director, officer, employee or agent in any Proceeding, whether or not the Corporation is a party to such Proceeding.

Section 6.05. Procedure for Indemnification of Directors and Officers. Any indemnification of a director or officer of the Corporation under Sections 6.01 and 6.02, or advance of costs, charges and expenses to a director or officer under Section 6.04 of these By-Laws, shall be made promptly, and in any event within thirty (30) days, upon the written request of the director or officer. If a determination by the Corporation that the director or officer is entitled to indemnification pursuant to this Article VI is required, and the Corporation fails to respond within thirty (30) days to a written request for indemnity, the Corporation shall be deemed to have approved such request. If the Corporation denies a written request for indemnity or advancement of expenses, in whole or in part, or if payment in full pursuant to such request is not made within thirty (30) days, the right to indemnification or advances as granted by this Article VI shall be enforceable by the director or officer in any court of competent jurisdiction. Such person's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such Proceeding shall also be indemnified by the Corporation. It shall be a defense to any such Proceeding (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 6.04 of these By-Laws where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in

Section 6.01 of these By-Laws, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 6.01 of these By-Laws, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 6.06. Survival; Preservation of Other Rights. The foregoing indemnification provisions shall be deemed to be a contract between the Corporation and each director, officer, employee and agent who serves in any such capacity at any time while these provisions as well as the relevant provisions of the Delaware General Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any Proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a "contract right" may not be modified retroactively without the consent of such director, officer, employee or agent.

The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6.07. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person or on such person's behalf in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article VI.

Section 6.08. Severability. If this Article VI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director or officer and may indemnify each employee or agent of the Corporation as to costs, charges and expenses (including attorneys' fees),

judgments, fines and amounts paid in settlement with respect to a Proceeding, whether civil, criminal, administrative or investigative, including a Proceeding by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article VI that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VII

OFFICES

Section 7.01. Initial Registered Office. The initial registered office of the Corporation in the State of Delaware shall be located at Corporation Trust Center, 1209 N. Orange Street in the City of Wilmington, County of New Castle.

Section 7.02. Other Offices. The Corporation may maintain offices or places of business at such other locations within or without the State of Delaware as the Board of Directors may from time to time determine or as the business of the Corporation may require.

ARTICLE VIII

GENERAL PROVISIONS

Section 8.01. Dividends. Subject to any applicable provisions of law and the Certificate of Incorporation, dividends upon the shares of the Corporation may be declared by the Board of Directors at any regular or special meeting of the Board of Directors and any such dividend may be paid in cash, property, or shares of the Corporation's capital stock.

A member of the Board of Directors, or a member of any committee designated by the Board of Directors shall be fully protected in relying in good faith upon the records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors, or by any other person as to matters the Director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation, as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid.

Section 8.02. Reserves. There may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, thinks proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall think conducive to the interest of the Corporation, and the Board of Directors may similarly modify or abolish any such reserve.

Section 8.03. Execution of Instruments. The Board of Directors may authorize, or provide for the authorization of, officers, employees or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. Any such authorization must be in writing or by electronic transmission and may be general or limited to specific contracts or instruments.

Section 8.04. Corporate Indebtedness. No loan shall be contracted on behalf of the Corporation, and no evidence of indebtedness shall be issued in its name, unless authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Loans so authorized may be effected at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual. All bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation issued for such loans shall be made, executed and delivered as the Board of Directors shall authorize. When so authorized by the Board of Directors, any part of or all the properties, including contract rights, assets, business or good will of the Corporation, whether then owned or thereafter acquired, may be mortgaged, pledged, hypothecated or conveyed or assigned in trust as security for the payment of such bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation, and of the interest thereon, by instruments executed and delivered in the name of the Corporation.

Section 8.05. Disposition of Funds. The funds of the Corporation shall be paid out, transferred or otherwise disposed of only in such manner and under such controls as may be authorized by resolution of the Board of Directors or as may be authorized by such officers of the Corporation as the Board of Directors designates.

Section 8.06. Sale, Transfer, etc. of Securities. To the extent authorized by the Board of Directors or by the Chief Executive Officer, the President, any Vice President, the Secretary of the Corporation, the Chief Financial Officer or the Treasurer or any other officers designated by the Board of Directors or the Chief Executive Officer may sell, transfer, endorse, and assign any shares of stock, bonds or other securities owned by or held in the name of the Corporation, and may make, execute and deliver in the name of the Corporation, under its corporate seal, any instruments that may be appropriate to effect any such sale, transfer, endorsement or assignment.

Section 8.07. Voting as Stockholder. Unless otherwise determined by resolution of the Board of Directors, the Chief Executive Officer, the President, any Executive Vice President or any Senior Vice President shall have full power and authority on behalf of the Corporation to attend any meeting of stockholders of any corporation in which the Corporation may hold stock, and to act, vote (or execute proxies to vote) and exercise in person or by proxy all other rights, powers and privileges incident to the ownership of such stock. Such officers acting on behalf of the Corporation shall have full power and authority to execute any instrument expressing consent to or dissent from any action of any such corporation without a meeting. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 8.08. Fiscal Year. The fiscal year of the Corporation shall commence on the first day of January of each year (except for the Corporation's first fiscal year which shall commence on the date of incorporation) and shall terminate in each case on December 31.

Section 8.09. Seal. The seal of the Corporation shall be in such form as the Board of Directors may from time to time determine and shall contain the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware". The form of such seal shall be subject to alteration by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or reproduced, or may be used in any other lawful manner.

Section 8.10. Books and Records; Inspection. Except to the extent otherwise required by law, the books and records of the Corporation shall be kept at such place or places within or without the State of Delaware as may be determined from time to time by the Board of Directors.

ARTICLE IX

AMENDMENT OF BY-LAWS

Section 9.01. Amendment. These By-Laws may be amended, altered or repealed:

(a) by resolution adopted by a majority of the Board of Directors at any special or regular meeting of the Board of Directors if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting; or

(b) at any regular or special meeting of the stockholders upon the affirmative vote of the holders of three-fourths (3/4) or more of the combined voting power of the outstanding shares of the Corporation entitled to vote

generally in the election of Directors if, in the case of such special meeting only, notice of such amendment, alteration or repeal is contained in the notice or waiver of notice of such meeting.

ARTICLE X

CONSTRUCTION

Section 10.01. Construction. In the event of any conflict between the provisions of these By-Laws as in effect from time to time and the provisions of the Certificate of Incorporation of the Corporation as in effect from time to time, the provisions of such Certificate of Incorporation shall be controlling.

EXHIBIT D to the Plan of Conversion

ARTICLES OF INCORPORATION

OF

PRINCIPAL IOWA NEWCO, INC.

TO THE SECRETARY OF STATE
OF THE STATE OF IOWA:

Pursuant to Section 202 of Chapter 490 of Title XII of the Iowa Code (2001) ("Chapter 490"), the undersigned, acting as incorporator, adopts the following Articles of Incorporation:

ARTICLE I

The name of the corporation is Principal Iowa Newco, Inc.

ARTICLE II

The corporation shall have perpetual existence.

ARTICLE III

The purpose for which the corporation is organized is the transaction of any and all lawful business for which corporations may be organized under Chapter 490.

ARTICLE IV

Section 1. The aggregate number of shares of stock which the corporation is authorized to issue is _____ shares of common stock, par value $_____ per share (the "Common Stock"), and _____ shares of preferred stock, par value $_____ per share (the "Preferred Stock"), issuable in one or more series.

Section 2. The Board of Directors of the corporation is hereby expressly authorized, at any time and from time to time, to divide the shares of Preferred Stock into one or more series, to issue from time to time in whole or in part the shares of Preferred Stock or the shares of any series thereof, and in the resolution or resolutions providing for the issue of shares of Preferred Stock or of a particular series to fix and determine the voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof that may be desired, to the fullest extent now or hereafter permitted by Section 602 of Chapter 490, as amended from time to time, and the other provisions of these Articles of Incorporation.

Section 3. The Common Stock shall be subject to the express terms of the Preferred Stock and any series thereof.

Section 4. Except as otherwise provided by law or by the resolution or resolutions of the Board of Directors of the corporation providing for the issue of any series of Preferred Stock, the holders of the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes and holders of Preferred Stock shall not be entitled to vote on any matter or receive notice of any meeting of stockholders. At each annual or special meeting of shareholders, each holder of Common Stock shall be entitled to one vote in person or by proxy for each share of Common Stock standing in such holder's name on the stock transfer records of the corporation.

Section 5. No shareholder of the corporation shall be entitled to exercise any right of cumulative voting.

Section 6. No shareholder of the corporation shall have any preemptive or preferential right, nor be entitled as such as a matter of right to subscribe for or purchase any part of any new or additional issue of stock of the corporation of any class or series, whether issued for money or for consideration other than money, or of any issue of securities convertible into stock of the corporation.

Section 7. The corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the corporation shall have notice thereof, except as expressly provided by applicable law.

ARTICLE V

The street address of the initial registered office of the corporation is 711 High Street, Des Moines, Iowa 50392 and the name of its initial registered agent at such address is Karen E. Shaff.

ARTICLE VI

The name and address of the incorporator is Joyce N. Hoffman, c/o Principal Financial Group, 711 High Street, Des Moines, Iowa 50392-0300.

ARTICLE VII

The private property of the shareholders, directors and other officers and managers of the corporation shall in no case be liable for corporate debts, but shall be exempt therefrom.

EXHIBIT D to the Plan of Conversion

ARTICLE VIII

The following provisions are inserted for the management of the business and for the conduct of the affairs of the corporation and for the purpose of creating, defining, limiting and regulating the powers of the corporation and its directors and shareholders:

(a) Subject to the rights of the holders of any class or series of Preferred Stock, if any, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the entire Board of Directors; provided however, that the Board of Directors shall at no time consist of fewer than three (3) directors.

(b) The Board of Directors, subject to the rights of any holders of shares of any class or series of Preferred Stock, shall be divided into three classes, designated Classes I, II and III, which shall be as nearly equal numerically as possible. Directors of Class I shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2002, directors of Class II shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2003 and directors of Class III shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2004. At each succeeding annual meeting of shareholders following such initial classification and election, the respective successors of each class shall be elected for three year terms. The term of office of each director shall begin at the annual meeting at which such director is elected or at the time elected by the Board of Directors. Each director shall serve until a successor is duly elected and qualified and shall be eligible for re-election.

(c) The Board of Directors shall be elected in the manner specified in these Articles of Incorporation and the By-Laws of the corporation. Advance notice of nominations for the election of directors and of business to be brought by shareholders before any meeting of shareholders of the corporation shall be given in the manner and to the extent provided in the By-Laws of the corporation.

(d) Subject to the rights of any holders of shares of any class or series of Preferred Stock to elect additional directors under specified circumstances, any director may be removed, but only for cause, at a meeting of shareholders called for that purpose in the manner prescribed by law, upon the affirmative vote of holders of a majority of the combined voting power of the then outstanding stock of the corporation entitled to vote generally in the election of directors.

(e) Each director (whenever elected) shall hold office until his or her death, resignation or removal, except that the term of office of each director shall

not extend beyond the annual meeting next following the date such director attains age 70, or such younger age as may be established for all directors by the Board of Directors, except that the terms of directors of the corporation who were directors of Principal Mutual Life Insurance Company prior to the annual meeting of Principal Mutual Life Insurance Company in 1984 may extend to the annual meeting of shareholders of the corporation next following the date such director attains age 72 and except that for officer-directors, other than one who is or has been Chief Executive Officer of the corporation, the term as director shall not extend beyond the annual meeting of shareholders of the corporation next following the date such director retires as an active officer of the corporation.

(f) Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause and newly created directorships resulting from any increase in the authorized number of directors shall be filled in the manner provided in the By-Laws of the corporation.

(g) The corporate powers of the corporation (except as at the time otherwise provided by law, these Articles of Incorporation or the By-Laws of the corporation) shall be exercised by the Board of Directors, and by such officers, and agents as the Board of Directors may authorize, elect or appoint.

(h) The Board of Directors shall have the power without the assent or vote of the shareholders of the corporation to adopt such By-Laws and rules and regulations for the transaction of the business of the corporation not inconsistent with these Articles of Incorporation or the laws of the State of Iowa, and to amend, alter or repeal such By-Laws, rules and regulations.

(i) A director, in determining what is in the best interests of the corporation when considering a proposal of acquisition, merger or consolidation of the corporation or a similar proposal, may consider any or all of the following community interest factors, in addition to consideration of the effects of any action on shareholders: (1) the interests of the policyholders of the Corporation's subsidiaries; (2) the effects of action on the corporation's employees, suppliers, creditors and customers; (3) the effects of the action on the communities in which the corporation and its subsidiaries operate; and (4) the long-term as well as short-term interests of the corporation and its shareholders including the possibility that these interests may be best served by the continued independence of the corporation.

If on the basis of the community interest factors described above, the Board of Directors of the corporation determines that a proposal to acquire or merge the

corporation is not in the best interests of the corporation, it may reject the proposal. If the Board of Directors of the corporation determines to reject any such proposal, the Board of Directors of the corporation has no obligation to facilitate, to remove any barriers to or to refrain from impeding the proposal. Consideration of any or all of the community interest factors is not a violation of the business judgment rule or of any duty of the director to the shareholders, or a group of shareholders, even if the director reasonably determines that a community interest factor or factors outweigh the financial or other benefits to the corporation or a shareholder or group of shareholders.

ARTICLE IX

The corporation shall indemnify directors, officers, employees and agents of the corporation as provided in Sections 850 through 858 of Chapter 490, subject to such limitations as may be established by the Board of Directors. Any repeal or modification of this Article IX or of Sections 850 through 858 of Chapter 490 shall not adversely affect any right of indemnification of a director, officer, employee or agent of the corporation existing at any time prior to such repeal or modification.

ARTICLE X

A director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for a breach of the director's duty of loyalty to the corporation or its shareholders; (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (c) for a transaction from which the director derives an improper personal benefit; or (d) under Section 833 of Chapter 490, as amended from time to time. If Chapter 490 is hereafter amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the corporation, in addition to the limitation on personal liability provided herein, shall be eliminated or limited to the extent of such amendment, automatically and without any further action, to the maximum extent permitted by law. Any repeal or modification of this Article X by the shareholders of the corporation shall be prospective only and shall not adversely affect any limitation on the personal liability or any other right or protection of a director of the corporation with respect to any state of facts existing at or prior to the time of such repeal or modification.

ARTICLE XI

The corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by the laws of the State of Iowa, and all rights herein conferred upon shareholders or directors (in the present form of these Articles of Incorporation or as hereinafter amended) are granted subject to this reservation.

Exhibit E to the Plan of Conversion

BY-LAWS

OF

PRINCIPAL IOWA NEWCO, INC.

As Adopted on _____ __, 2001

EXHIBIT E to the Plan of Conversion

Table of Contents

		Page
ARTICLE I	PRINCIPAL OFFICE	1
ARTICLE II	REGISTERED OFFICE AND AGENT	1
ARTICLE III	MEETINGS OF SHAREHOLDERS	1
Section 3.01.	Annual Meeting	1
Section 3.02.	Special Meetings	1
Section 3.03.	Notices and Reports to Shareholders	2
Section 3.04.	Notice of Shareholder Business and Nominations	2
Section 3.05.	Waiver of Notice	5
Section 3.06.	Record Date	5
Section 3.07.	Shareholders' List	5
Section 3.08.	Quorum	6
Section 3.09.	Organization	6
Section 3.10.	Voting of Shares	6
Section 3.11.	Voting by Proxy or Representative	7
Section 3.12.	Conduct of Business	7
Section 3.13.	Action Without Meeting	7
ARTICLE IV	BOARD OF DIRECTORS	8
Section 4.01.	Qualifications and General Powers	8
Section 4.02.	Number and Term of Office	8
Section 4.03.	Quorum and Manner of Acting	8
Section 4.04.	Regular Meetings	8
Section 4.05.	Special Meetings	9
Section 4.06.	Resignation	9
Section 4.07.	Vacancies	9
Section 4.08.	Removal	9
Section 4.09.	Compensation of Directors	10
Section 4.10.	Action Without Meeting	10
Section 4.11.	Dividends	10
Section 4.12.	Officers of the Board of Directors	10
ARTICLE V	THE EXECUTIVE COMMITTEE AND OTHER COMMITTEES	10
Section 5.01.	Executive Committee	10
Section 5.02.	Powers of Executive Committee	11
Section 5.03.	Other Committees	11

EXHIBIT E to the Plan of Conversion

Table of Contents
(continued)

		Page
ARTICLE VI	OFFICERS	11
Section 6.01.	Chief Executive Officer	11
Section 6.02.	Secretary of the Corporation	11
Section 6.03.	Other Officers Elected by Board of Directors	11
Section 6.04.	Other Officers	12
Section 6.05.	Resignation and Removal	12
Section 6.06.	Compensation of Officers	12
ARTICLE VII	SHARES, THEIR ISSUANCE AND TRANSFER	12
Section 7.01.	Consideration for Shares	12
Section 7.02.	Certificates for Shares	12
Section 7.03.	Execution of Certificates	12
Section 7.04.	Share Record	12
Section 7.05.	Cancellation	13
Section 7.06.	Transfers of Stock	13
Section 7.07.	Regulations	13
Section 7.08.	Lost, Destroyed or Mutilated Certificates	13
ARTICLE VIII	MISCELLANEOUS PROVISIONS	13
Section 8.01.	Facsimile Signatures	13
Section 8.02.	Execution of Instruments	13
Section 8.03.	Disposition of Funds	14
Section 8.04.	Fiscal Year	14
Section 8.05.	Corporate Seal	14
Section 8.06.	Books and Records	14
Section 8.07.	Voting of Stocks Owned by the Corporation	14
ARTICLE IX	INDEMNITY	14
ARTICLE X	AMENDMENTS	15

EXHIBIT E to the Plan of Conversion

BY-LAWS

OF

PRINCIPAL IOWA NEWCO, INC.

ARTICLE I

PRINCIPAL OFFICE

The location of the principal office of the corporation in the State of Iowa will be identified in the corporation's annual report filed with the Secretary of State of the State of Iowa. The corporation may have such other offices either within or without the State of Iowa as the business of the corporation may from time to time require.

ARTICLE II

REGISTERED OFFICE AND AGENT

The initial registered agent and office of the corporation are set forth in the Articles of Incorporation. The registered agent or registered office, or both, may be changed by resolution of the Board of Directors.

ARTICLE III

MEETINGS OF SHAREHOLDERS

Section 3.01. Annual Meeting. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held at such place, either within or without the State of Iowa, and at such date and at such time, as may be fixed from time to time by resolution of the Board of Directors and set forth in the notice or waiver of notice of the meeting.

Section 3.02. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by law (which for purposes of these By-Laws shall mean as required from time to time by the Iowa Business Corporation Act or the Articles of Incorporation of the corporation), may be called by the Chairman of the Board, Chief Executive Officer (or in the event of his or her absence or disability, by the President or any Executive Vice President), or pursuant to a resolution approved by a majority of the entire Board of Directors, and shall be called by the Board of Directors upon the written demand, signed, dated and delivered to the Secretary of the corporation, of the holders of at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the meeting. Such written demand shall state the purpose or purposes for which such meeting is to be called. The time, date and place of any special meeting

shall be determined by the Board of Directors, or, at its direction, by the Chief Executive Officer.

Section 3.03. Notices and Reports to Shareholders.

(a) Notice of the place, date and time of all meetings of shareholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be communicated not fewer than 10 days nor more than 60 days before the date of the meeting to each shareholder entitled to vote at such meeting. The Board of Directors, as provided in Section 3.6 of these By-Laws, may establish a record date for the determination of shareholders entitled to notice. Notice of adjourned meetings need only be given if required by law or Section 3.8 of these By-Laws.

(b) If notice of proposed corporate action is required by law to be given to shareholders not entitled to vote and the action is to be taken by consent of the voting shareholders, the corporation shall give all shareholders written notice of the proposed action at least 10 days before the action is taken. The notice must contain or be accompanied by the same material that would have been required by law to be sent to shareholders not entitled to vote in a notice of meeting at which the proposed action would have been submitted to the shareholders for action.

(c) In the event corporate action is taken without a meeting in accordance with Section 3.13 of these By-Laws by less than unanimous written consent, prompt notice of the taking of such corporate action shall be given to those shareholders who have not consented in writing to the taking of such corporate action.

Section 3.04. Notice of Shareholder Business and Nominations.

(a) Annual Meetings of Shareholders.

(i) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders of the corporation (1) by or at the direction of the Board of Directors or the Chairman of the Board or (2) by any shareholder of the corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in clauses (ii) and (iii) of this paragraph (a) of Section 3.4 and who was a shareholder of record at the time such notice was delivered to the Secretary of the corporation.

(ii) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (2) of paragraph (a)(i) of this Section 3.4, the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation not less than 90 days nor more than 120 days prior to the first

anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is advanced by more than 20 days or delayed by more than 70 days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than 120 days prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the adjournment of an annual meeting commence a new time period for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (1) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (2) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and of any beneficial owner on whose behalf the proposal is made; and (3) as to the shareholder giving the notice and any beneficial owner on whose behalf the nomination or proposal is made (A) the name and address of such shareholder, as they appear on the corporation's books, and of such beneficial owner and (B) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this Section 3.4 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least l00 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice under this Section 3.4 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(b) Special Meetings of Shareholders. Only such business as shall have been brought before the special meeting of the shareholders pursuant to the corporation's notice of meeting pursuant to Section 3.3 of these By-Laws shall be conducted at such meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii)

by any shareholder of the corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in this paragraph (b) of Section 3.4 and who is a shareholder of record at the time such notice is delivered to the Secretary of the corporation. Nominations by shareholders of persons for election to the Board of Directors may be made at such special meeting of shareholders if the shareholder's notice as required by paragraph (a)(ii) of this Section 3.4 shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the adjournment of a special meeting commence a new time period for the giving of a shareholder's notice as described above.

(c) General.

(i) Only persons who are nominated in accordance with the procedures set forth in this Section 3.4 shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the annual or special meeting in accordance with the procedures set forth in this Section 3.4. Except as otherwise provided by law, the Articles of Incorporation of the corporation or these By-Laws, the chairman of the annual or special meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 3.4 and, if any proposed nomination or business is not in compliance with this Section 3.4, to declare that such defective proposal or nomination shall be disregarded.

(ii) For purposes of this Section 3.4, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this Section 3.4, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 3.4. Nothing in this Section 3.4 shall be deemed to affect any rights of (1) shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (2) the holders of any series of Preferred Stock to elect directors if so provided under any applicable certificates of designation relating to the series of Preferred Stock.

Section 3.05. Waiver of Notice.

(a) Any shareholder may waive any notice required by law or these By-Laws if such waiver is in writing and signed by the shareholder entitled to such notice, whether before or after the date and time stated in such notice. Such a waiver shall be equivalent to notice to such shareholder in due time as required by law or these By-Laws. Any such waiver shall be delivered to the corporation for inclusion in the minutes or filing with the corporate records of the corporation.

(b) A shareholder's attendance at a meeting, in person or by proxy, waives (i) objection to lack of notice or defective notice of such meeting, unless the shareholder at the beginning of the meeting or promptly upon the shareholder's arrival objects to holding the meeting or transacting business at the meeting and (ii) objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 3.06. Record Date. The Board of Directors may fix, in advance, a date as the record date for any determination of shareholders for any purpose, such date in every case to be not more than 70 days prior to the date on which the particular action or meeting requiring such determination of shareholders is to be taken or held. If no record date is so fixed for the determination of shareholders, the close of business on the day before the date on which the first notice of a shareholders' meeting is communicated to shareholders or the date on which the Board of Directors authorizes a share dividend or a distribution (other than one involving a repurchase or reacquisition of shares), as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section 3.6, such determination shall apply to any adjournment thereof, unless the Board of Directors selects a new record date or unless a new record date is required by law.

Section 3.07. Shareholders' List. After fixing a record date for a meeting, the corporation shall prepare an alphabetical list of the names of all shareholders who are entitled to notice of a shareholders' meeting. The list must be arranged by voting group and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. The shareholders' list must be available for inspection by any shareholder beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting at the corporation's principal office or at a place in the city where the meeting will be held which such place shall be identified in the notice of the meeting. A shareholder, or a shareholder's agent or attorney, is entitled on written demand to inspect and, subject to the requirements of law, to copy the list, during regular business hours and at the person's expense, during the period the list is available for inspection. The corporation shall make the shareholders' list available at the meeting, and any shareholder, or a shareholder's

agent or attorney, is entitled to inspect the list at any time during the meeting or any adjournment thereof.

Section 3.08. Quorum.

(a) At any meeting of the shareholders, a majority of the votes entitled to be cast on the matter by a voting group constitutes a quorum of that voting group for action on that matter, unless the representation of a different number is required by law, and in that case, the representation of the number so required shall constitute a quorum. If at the time for which a meeting of shareholders has been called less than a quorum is present, the chairman of the meeting or a majority of the shareholders present or represented by proxy and entitled to vote thereat may adjourn the meeting to another place, date or time.

(b) When a meeting is adjourned to another place, date or time, notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than 120 days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, date and time of the adjourned meeting shall be given in conformity with these By-Laws. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

(c) Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment thereof unless a new record date is or must be set for that adjourned meeting.

Section 3.09. Organization.

(a) The Chairman of the Board, or in the absence of the Chairman of the Board, the acting Chairman of the Board, or in his or her absence, such person as shall be designated by the holders of a majority of the votes present at the meeting shall call meetings of the shareholders to order and shall act as presiding officer of such meetings.

(b) The Secretary of the corporation shall act as secretary at all meetings of the shareholders, but in the absence of the Secretary at any meeting of the shareholders, the presiding officer may appoint any person to act as secretary of the meeting.

Section 3.10. Voting of Shares.

(a) Every shareholder entitled to vote may vote in person or by proxy. Except as provided in subsection (c) of this Section 3.10 or unless otherwise provided by law, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Unless otherwise provided by law, directors in each class shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Shareholders

do not have the right to cumulate their votes for directors unless the Articles of Incorporation of the corporation so provide.

(b) The shareholders having the right to vote shares at any meeting shall be only those of record on the stock books of the corporation on the record date fixed by law or pursuant to the provisions of Section 3.6 of these By-Laws.

(c) Absent special circumstances, the shares of the corporation held, directly or indirectly, by another corporation are not entitled to vote if a majority of the shares entitled to vote for the election of directors of such other corporation is held by the corporation. The foregoing does not limit the power of the corporation to vote any shares held by the corporation in a fiduciary capacity.

(d) If a quorum exists, action on a matter other than the election of directors, by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless a greater number is required by law.

Section 3.11. Voting by Proxy or Representative.

(a) At all meetings of the shareholders, a shareholder entitled to vote may vote in person or by proxy appointed in writing, which appointment shall be effective when received by the secretary of the meeting or other officer, agent or inspector authorized to tabulate votes. An appointment of a proxy is valid for 11 months from the date of its execution, unless a longer period is expressly provided in the appointment form.

(b) Shares held by an administrator, executor, guardian, conservator, receiver, trustee, pledgee or another corporation may be voted as provided by law.

Section 3.12. Conduct of Business. The person acting as the presiding officer of any meeting of shareholders shall determine the order of business and procedure at the meeting, including such regulation of the manner of voting and the conduct of business as seem to him or her to be in order.

Section 3.13. Action Without Meeting. Except as otherwise set forth in this Section 3.13 and subject to Section 3.3(c) of these By-Laws, any action required or permitted by law to be taken at a meeting of the shareholders of the corporation may be taken without a meeting or vote, and without notice, if one or more consents in writing setting forth the action taken shall be signed and dated by the holders of outstanding shares having not less than 90% of the votes entitled to be cast at a meeting at which all shares entitled to vote on the action were present and voted, and are delivered to the corporation for inclusion in the minutes or filing with the corporate records of the corporation; provided, however, that a director shall not be removed by written consents unless written consents are obtained from the holders of all of the outstanding shares of the corporation that are entitled to vote on the removal of the director. Written consents from a sufficient number of shareholders must be obtained within 60 days from the date

of the earliest dated consent for such consents to be effective to take corporate action. If not otherwise fixed by law or in accordance with these By-Laws, the record date for determining shareholders entitled to take action without a meeting is the date the first shareholder signs such a written consent.

ARTICLE IV

BOARD OF DIRECTORS

Section 4.01. Qualifications and General Powers. No director is required to be an officer, employee or shareholder of the corporation or a resident of the State of Iowa. The business and affairs of the corporation shall be managed under the direction of the Board of Directors. The Board of Directors may authorize any officer or officers or agent or agents to enter into any contract or to execute and deliver any instrument in the name and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 4.02. Number and Term of Office. The Board of Directors shall consist of not less than three directors, the exact number to be determined from time to time by a majority of the entire Board of Directors. The Board of Directors shall be divided into three classes, designated Classes I, II and III, which shall be as nearly equal numerically as possible. Directors of Class I shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2002, directors of Class II shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2003 and directors of Class III shall be elected to hold office for a term expiring at the annual meeting of shareholders to be held in 2004. At each succeeding annual meeting of shareholders following such initial classification and election, the respective successors of each class shall be elected for three year terms. The term of office of each director shall begin at the annual meeting at which such director is elected or at the time elected by the Board of Directors. Each director shall serve until a successor is duly elected and qualified and shall be eligible for re-election.

Section 4.03. Quorum and Manner of Acting. A quorum of the Board of Directors consists of a majority of the number of directors prescribed in accordance with Section 4.2 of these By-Laws. If at any meeting of the Board of Directors less than a quorum is present, a majority of the directors present may adjourn the meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. At all meetings of directors where a quorum is present, the act of the majority of the directors present at the meeting shall be the act of the Board of Directors.

Section 4.04. Regular Meetings. Regular meetings of the Board of Directors shall be held without notice once in each calendar quarter on such date and at such hour and place, within or without the State of Iowa, as may be fixed by the Board of Directors, except that the meeting in the second quarter shall be held on the date and at the place of the annual meeting of the shareholders of the corporation. Notice of regular meetings

need not be given, provided, however, that if the Board of Directors shall fix or change the time or place of any regular meeting, notice of such action shall be mailed promptly, or sent by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, to each director who shall not have been present at the meeting at which such action was taken, addressed to him or her at his or her usual place of business, or shall be delivered to him or her personally. Notice of such action need not be given to any director who attends the first regular meeting after such action is taken without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any director who submits a signed waiver of notice, whether before or after such meeting.

Section 4.05. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, Chief Executive Officer (or, in the event of his or her disability, by the President or any Executive Vice President), or pursuant to a resolution approved by a majority of the entire Board of Directors, at such place (within or without the State of Iowa), date and hour as may be specified in the respective notices or waivers of notice of such meetings. Special meetings of the Board of Directors may be called on twenty-four (24) hours notice, if notice is given to each director personally or by telephone, including a voice messaging system, or other system of technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means, or on five (5) days' notice, if notice is mailed to each director, addressed to him or her at his or her usual place of business or to such other address as any director may request by notice to the Secretary of the corporation. Notice of any special meeting need not be given to any director who attends such meeting without protesting the lack of notice to him or her, prior to or at the commencement of such meeting, or to any director who submits a signed waiver of notice, whether before or after such meeting, and any business may be transacted thereat.

Section 4.06. Resignation. Any director of the corporation may resign at any time by delivering written notice to the Chairman of the Board or the secretary of the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date.

Section 4.07. Vacancies. Any vacancy or vacancies on the Board of Directors may be filled by the shareholders, by the Board of Directors at any meeting of the Board of Directors or, if the directors remaining in office constitute fewer than a quorum of the Board of Directors, by the affirmative vote of a majority of directors remaining in office. No decrease in the number of directors shall shorten the term of any incumbent director.

Section 4.08. Removal. Any director may be removed, but only for cause, at a meeting of shareholders called for that purpose in the manner prescribed by law, upon the affirmative vote of holders of a majority of the combined voting power of the then outstanding stock of the corporation entitled to vote generally in the election of directors.

Section 4.09. Compensation of Directors. The amount, if any, which each director shall be entitled to receive as compensation for such director's services as such shall be fixed from time to time by resolution of the Board of Directors.

Section 4.10. Action Without Meeting. Any action required or permitted by law to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all of the directors then in office and if one or more consents in writing describing the action so taken shall be signed by each director then in office and included in the minutes or filed with the corporate records reflecting the action taken. Action taken under this section is effective when the last director signs the consent, unless the consent specifies a different effective date.

Section 4.11. Dividends. Subject to applicable law and any applicable provisions of the Articles of Incorporation of the corporation, the Board of Directors may authorize and the corporation may make distributions to its shareholders in cash or property.

Section 4.12. Officers of the Board of Directors.

(a) The Board of Directors shall elect from its number a Chairman of the Board to serve at the pleasure of the Board of Directors. The Chairman of the Board shall, if present, preside at each meeting of the Board of Directors and shall have such powers and shall perform such duties as may be assigned to him or her by these By-Laws or by or pursuant to authorization of the Board of Directors.

(b) The Board of Directors shall by resolution establish a procedure to provide for an acting Chairman of the Board in the event the current Chairman of the Board is unable to serve or act in that capacity.

ARTICLE V

THE EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 5.01. Executive Committee. The Board of Directors shall appoint an Executive Committee composed of five directors. Members of the Executive Committee shall be appointed by and serve at the pleasure of the Board of Directors. The Chairman of the Board shall be a member of the Executive Committee and shall, if present, preside at each meeting of the Executive Committee. The Chief Executive Officer, if different than the Chairman of the Board, shall be a member of the Executive Committee and in the absence or vacancy in the office of the Chairman of the Board, shall preside at meetings of the Executive Committee. If the Chairman of the Board is also the Chief Executive Officer, any other member of the Executive Committee, as determined by the members of the Executive Committee present, shall preside at a meeting of the Executive Committee in the absence of the Chairman of the Board. The Secretary of the corporation shall act as secretary of the Executive Committee and shall keep a record of

all proceedings of the Executive Committee. A majority of the members of the Executive Committee shall constitute a quorum.

Section 5.02. Powers of Executive Committee. The Executive Committee shall have and, to the extent permitted by law, may exercise all of the powers of the Board of Directors in the management and affairs of the corporation except when the Board of Directors is in session.

Section 5.03. Other Committees. The Board of Directors, by resolution adopted by the affirmative vote of a majority of directors then in office, may establish one (1) or more other committees of the Board of Directors, each committee to consist of such number of directors as from time to time may be fixed by the Board of Directors. Any such committee shall serve at the pleasure of the Board of Directors. Each such committee shall have the powers and duties delegated to it by the Board of Directors, subject to the limitations set forth in applicable Iowa law. The Board of Directors may elect one or more of its members as alternate members of any such committee who may take the place of any absent member or members at any meeting of such committee, upon request of the Chairman of the Board or the Chairman of such committee.

ARTICLE VI

OFFICERS

Section 6.01. Chief Executive Officer. The Board of Directors shall elect a Chief Executive Officer to serve at the pleasure of the Board of Directors who shall (a) supervise the carrying out of policies adopted or approved by the Board of Directors, (b) exercise a general supervision and superintendence over all the business and affairs of the corporation, and (c) possess such other powers and perform such other duties as may be assigned to him or her by these By-Laws, as may from time to time be assigned by the Board of Directors and as may be incident to the office of Chief Executive Officer.

Section 6.02. Secretary of the Corporation. The Board of Directors shall appoint a Secretary of the corporation to serve at the pleasure of the Board of Directors. The Secretary shall (a) keep minutes of all meetings of the shareholders and of the Board of Directors, (b) authenticate records of the corporation and (c) in general, have such powers and perform such other duties as may be assigned to him or her by these By-Laws, as may from time to time be assigned to him or her by the Board of Directors or the Chief Executive Officer and as may be incident to the office of Secretary.

Section 6.03. Other Officers Elected by Board of Directors. At any meeting of the Board of Directors, the Board of Directors may elect such other officers of the corporation as the Board of Directors may deem necessary, to serve at the pleasure of the Board of Directors. Other officers elected by the Board of Directors shall have such powers and perform such duties as may be assigned to them by or pursuant to authorization of the Board of Directors or by the Chief Executive Officer.

Section 6.04. Other Officers. The Board of Directors may authorize the corporation to elect or appoint other officers, each of whom shall serve at the pleasure of the corporation. Officers elected or appointed by the corporation shall have such powers and perform such duties as may be assigned to them by the corporation.

Section 6.05. Resignation and Removal. An officer may resign at any time by delivering notice to the Secretary of the corporation. A resignation is effective when the notice is delivered unless the notice specifies a later effective date. Any officer may be removed, for or without cause, by the Board of Directors at any time.

Section 6.06. Compensation of Officers. The salaries and other compensation of all officers of the corporation shall be fixed by or pursuant to authorization of the Board of Directors.

ARTICLE VII

SHARES, THEIR ISSUANCE AND TRANSFER

Section 7.01. Consideration for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed, contracts for services to be performed, or other securities of the corporation. Before the corporation issues shares, the Board of Directors must determine that the consideration received or to be received for shares to be issued is adequate.

Section 7.02. Certificates for Shares. Every shareholder of the corporation shall be entitled to a certificate or certificates, to be in such form as the Board of Directors shall prescribe, certifying the number and class of shares of the corporation owned by such shareholder.

Section 7.03. Execution of Certificates. The certificates for shares of stock shall be numbered in the order in which they shall be issued and shall be signed by the Chief Executive Officer or President and the Secretary of the corporation or an Assistant Secretary of the corporation. The signatures of the Chief Executive Officer or President and the Secretary or Assistant Secretary or other persons signing for the corporation upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself or an employee of the corporation. In case any officer or other authorized person who has signed or whose facsimile signature has been placed upon such certificate for the corporation shall have ceased to be such officer or employee or agent before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer or employee or agent at the date of the issuance of such certificate.

Section 7.04. Share Record. A record shall be kept by the Secretary of the corporation, or by any other officer, employee or agent designated by the Board of

Directors, of the name and address of each shareholder of the corporation, the number and class of shares held by such shareholder, the number of the certificates representing such shares and the respective dates of issuance of such certificates and, in case of cancellation of any such certificate, the respective date of cancellation.

Section 7.05. Cancellation. Every certificate surrendered to the corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided in Section 7.8 of these By-Laws.

Section 7.06. Transfers of Stock. Transfers of shares of the capital stock of the corporation shall be made only on the books of the corporation by the record holder thereof, or by his or her attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation, and on surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation; provided, however, that whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact, if known to the Secretary of the corporation, shall be so expressed in the entry of transfer.

Section 7.07. Regulations. The Board of Directors may make such other rules and regulations as it may deem expedient, not inconsistent with law, concerning the issue, transfer and registration of certificates for shares of the capital stock of the corporation.

Section 7.08. Lost, Destroyed or Mutilated Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 8.01. Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these By-Laws, facsimile signatures of any officer or officers of the corporation may be used whenever and as authorized by the Board of Directors or a committee thereof. If any officer whose facsimile signature has been placed upon any form of instrument shall have ceased to be such officer before an instrument in such form is issued, such instrument may be issued with the same effect as if he or she had been such officer at the time of its issue.

Section 8.02. Execution of Instruments. The Board of Directors may authorize, or provide for the authorization of, officers, employees and agents to enter into any

contract or execute and deliver any instrument in the name and of behalf of the corporation. Any such authorization must be in writing or be by electronic transmission and may be general or limited to specific contracts or instruments.

Section 8.03. Disposition of Funds. The funds of the corporation shall be paid out, transferred or otherwise disposed of only in such manner and under such controls as may be authorized by resolution of the Board of Directors or as may be authorized by such officers of the corporation as the Board of Directors designates.

Section 8.04. Fiscal Year. The fiscal year of the corporation shall be from the first day of January through the last day of December.

Section 8.05. Corporate Seal. The corporation may adopt an official seal.

Section 8.06. Books and Records. The books and records of the corporation shall be kept (except that the shareholder list must also be kept at the places described in Section 3.7 of these By-Laws) at the principal office of the corporation.

Section 8.07. Voting of Stocks Owned by the Corporation. In the absence of a resolution of the Board of Directors to the contrary, the Chief Executive Officer and the President, and each of them, are authorized and empowered on behalf of the corporation to attend and vote, or to grant discretionary proxies to be used, at any meeting of shareholders of any corporation in which this corporation holds or owns shares of stock, and in that connection, on behalf of this corporation, to execute a waiver of notice of any such meeting or a written consent to action without a meeting. The Board of Directors shall have authority to designate any officer or person as a proxy or attorney-in-fact to vote shares of stock in any other corporation in which the corporation may own or hold shares of stock.

ARTICLE IX

INDEMNITY

The Board of Directors shall indemnify, or authorize the officers of the corporation to indemnify, directly and through insurance coverage, each person now or hereafter a director, officer, employee or other representative of the corporation, and that person's heirs and legal representatives, against all damages, awards, costs and expenses, including counsel fees, reasonably incurred or imposed in connection with or resulting from any action, suit or proceeding, or the settlement thereof prior to final adjudication, to which such person is or may be made a party by reason of being or having been a director, officer, employee or other representative of the corporation or by reason of service at the request of the corporation in any capacity with another entity or organization. Such rights or indemnification shall be in addition to any rights to which any director, officer, employee or other representative of the corporation, former, present

or future, may otherwise be entitled as a matter of law and subject to such limitations permitted by law as may be established by the Board of Directors.

ARTICLE X

AMENDMENTS

These By-Laws may be amended, altered or repealed by the Board of Directors at any regular or special meeting of the Board of Directors, provided written notice expressing in substance the proposed change shall have been given to each director at least two days prior to the date of such regular or special meeting. Notice of any proposed amendment, alteration or repeal may be waived by any director by filing a written waiver of notice with the Secretary of the corporation before, on or after the meeting date. The shareholders of the corporation may also amend, alter or repeal these By-Laws as provided in the Articles of Incorporation of the corporation.

PRIVILEGED AND CONFIDENTIAL

ACTUARIAL CONTRIBUTION MEMORANDUM

TABLE OF CONTENTS

SECTION		PAGE
I.	OVERVIEW	1
II.	BASIC PRINCIPLES AND METHODOLOGY	2
A.	INTRODUCTION	2
B.	BASIC METHODS	2
C.	TREATMENT OF SUBSIDIARIES	3
D.	ASSUMPTIONS AND PRACTICES THAT APPLY ACROSS LINES OF BUSINESS	3
1.	Historical Rates of Investment Return and Accumulation Rates	4
2.	Prospective Rates of Investment Return and Discount Rates	5
3.	Historical Expense Factors	5
4.	Prospective Expense Factors	6
5.	Historical Federal Income Tax Factors	6
6.	Prospective Federal Income Tax Factors	6
E.	CALCULATION RULES THAT APPLY ACROSS LINES OF BUSINESS	7
1.	Number of Prospective Years Recognized in the AC Calculation	7
2.	Policies Whose Contribution to Surplus Is Taken Into Account	7
3.	Reinsurance	7
III.	INDIVIDUAL LIFE INSURANCE - POLICIES IN THE CLOSED BLOCK	9
A.	OVERVIEW AND METHODOLOGY	9
B.	ADJUSTABLE LIFE	10
C.	TRADITIONAL LIFE	10
IV.	INDIVIDUAL LIFE INSURANCE - POLICIES NOT IN THE CLOSED BLOCK	12
A.	OVERVIEW AND METHODOLOGY	12
B.	ADJUSTABLE LIFE	12
C.	SURVIVORSHIP WHOLE LIFE	13
D.	UNIVERSAL LIFE, EXCLUDING SURVIVORSHIP UNIVERSAL LIFE	14
E.	SURVIVORSHIP UNIVERSAL LIFE	14
F.	97 TERM POLICIES	15
G.	BOLI UNIVERSAL LIFE	16
H.	SELECT UNIVERSAL LIFE	17
V.	INDIVIDUAL HEALTH POLICIES	18
A.	OVERVIEW AND METHODOLOGY	18
B.	INDIVIDUAL DISABILITY INCOME	19
C.	INDIVIDUAL MEDICAL	20
D.	LONG TERM CARE	21
VI.	INDIVIDUAL ANNUITIES	22
A.	OVERVIEW AND METHODOLOGY	22
B.	HISTORICAL CALCULATIONS	22
C.	PROSPECTIVE CALCULATIONS	24
VII.	GROUP ANNUITIES	25
A.	OVERVIEW AND METHODOLOGY	25
B.	GUARANTEED AND EXPERIENCE-RATED GROUP ANNUITIES AND LIFE OTHER THAN GROUP TERM	25
C.	GROUP TERM LIFE	28

Section Page

VIII. GROUP LIFE AND HEALTH INSURANCE..... 29
A. OVERVIEW AND METHODOLOGY..... 29
B. LARGE GROUP..... 30
C. SMALL GROUP..... 32
D. GROUP UNIVERSAL LIFE (GUL)..... 33

I. OVERVIEW

This memorandum describes the methodology for calculating the Actuarial Contribution ("AC") of each Policy owned by an Eligible Policyholder pursuant to Article VII of the Plan of Conversion ("Plan"). There is a separate section describing the methodology and assumptions for each of the following lines of business:

1) Individual Life Insurance - Policies in the Closed Block
2) Individual Life Insurance - Policies Not in the Closed Block
3) Individual Annuities
4) Individual Health Insurance
5) Group Annuities
6) Group Life and Health Insurance

The general methodology is described in more detail in the next section. Aspects specific to a particular line of business are included in the section for that line of business.

The information required for all of these calculations comes from a variety of proprietary files and reports including policy records maintained in electronic media, internal analyses and memoranda and also from public documents such as statutory annual statements filed with insurance regulators ("Annual Statements"). These data sources are referenced where appropriate.

Policy level data and aggregate data were used where available and credible. To the extent that data were not available or were not credible in certain instances, reasonable approximations were made to estimate missing data.

The term "Company" as used herein refers to Principal Life Insurance Company (formerly known as Principal Mutual Life Insurance Company and Bankers Life Company).

The term "Corporate Account" as used herein refers to an accounting classification that the Company established in 1985 to account for certain activities that were undertaken for the benefit of the Company as a whole and which were not associated with any one line of business.

Capitalized terms used in this Exhibit have the meanings ascribed to them in the Plan or in this Exhibit.

II. BASIC PRINCIPLES AND METHODOLOGY

A. INTRODUCTION

The Actuarial Contribution (AC) of each Policy is used in the calculation of its Variable Component of consideration as described in Section 7.2 of Article VII of the Plan.

The AC of a Policy is the accumulated contribution that policy is estimated to have made in the past to the Company's surplus, as defined below, ("historical AC") plus the present value of the contribution that the same policy is expected to make in the future ("prospective AC"), with such values determined as of March 31, 2000, which is the Actuarial Calculation Date, or "AC Date." The historical AC period is assumed to end at the AC Date, and the prospective AC period is assumed to begin at the AC Date, except as noted for Policies in the Closed Block.

"Surplus", as used herein, refers to statutory surplus, as shown in the Company's Annual Statements, plus the Asset Valuation Reserve (AVR) or the Mandatory Securities Valuation Reserve (MSVR), its predecessor. Contributions to and withdrawals from the Interest Maintenance Reserve (IMR) have been disregarded in calculating annual contributions to surplus except in the instance of experience-rated Group Annuity Policies.

Conceptually, each Policy's contribution to surplus in each year equals the excess of premiums, investment income, and capital gains less losses over benefits, policy dividends, commissions, expenses, and taxes.

B. BASIC METHODS

The Company used either a modeling approach or a case-by-case approach, as appropriate, for purposes of determining the ACs for Policies. For some Policies, a case-by-case approach was used to develop all or a portion of the historical AC and a modeling approach was used to develop the prospective AC.

Under the modeling approach, a model of representative plans, issue years, and, in some situations, issue ages, gender, risk classes and other factors was created to develop historical and/or prospective contributions to surplus. Each of the plan/issue year/issue age/etc. combinations is called a model "cell." For each model cell, year-by-year historical contributions to surplus were determined and accumulated with interest to the AC Date to arrive at the historical AC. Similarly, future expected annual contributions to surplus were determined and discounted to that same date to arrive at the prospective AC. The sum of the historical and prospective ACs equals the AC for that model cell. The ACs for the model cells were then used to determine the ACs for the Policies.

Under the case-by-case approach, the year-by-year history of each Policy in a line of business was taken into account, so that specific contribution-to-surplus calculations were made for each Policy. As under the modeling approach, year-by-year historical contributions to surplus were determined and accumulated with interest to the AC Date to arrive at the historical AC, and prospective annual contributions to surplus were determined and discounted to the AC Date to

arrive at the prospective AC. The sum of the historical and prospective ACs at the AC Date equals the AC for that Policy.

Under either the modeling approach or the case-by-case approach, if the AC of a Policy was negative, it was set to zero.

For purposes of the AC calculations, lines of business were established by first following the Annual Statement lines of business, and then creating subdivisions as needed to deal with product groupings that differ from each other significantly in terms of product characteristics. In defining product groupings for purposes of AC calculations, the Company's past practices in managing the business were followed to the greatest extent practicable.

C. TREATMENT OF SUBSIDIARIES

Generally, the financial results of subsidiaries were not reflected in the development of ACs, except as follows.

Principal National Life Insurance Company ("Principal National") was a subsidiary whose financial results were reported in the Corporate Account, and it sold certain types of products (individual life insurance and individual annuities) that were also sold by the Company. The Policies in Principal National were assumed by the Company through a reinsurance transaction, and the ACs for these Policies (as well as for the comparable Policies sold by the Company) were developed by combining the results, for corresponding lines of business, of Principal National and the Company.

The second exception relates to an investment in a company called "Up and Up" which was held by Principal Healthcare (PHC), a subsidiary that was held by Group Life and Health and reported in the Annual Statement with the operations of Group Health Insurance. When PHC was sold, this investment was retained by the Company within the Group Life and Health line, and its results continued to be reported under Group Health Insurance (in the Annual Statement). The results of this investment are reflected in developing investment earnings rates for assets that support products that are reported under Group Health Insurance.

The treatment of the Company's asset management subsidiaries in the calculation of ACs follows the general rule stated above with regard to the calculation of investment rates of return. However, the Company paid asset management fees to these subsidiaries. Had the activities been carried on in the Company itself, the cost of investment management (as reflected, for example, in the profitability of Group Annuities products) would have been incurred and taken into account directly. In order to achieve the same result when investment management activities were carried out in a subsidiary, the effect on product profitability was reflected by charging to the products the investment management charge less the proportion of such charge that resulted in profit to the subsidiary.

D. ASSUMPTIONS AND PRACTICES THAT APPLY ACROSS LINES OF BUSINESS

The following assumptions and practices apply to all lines of business unless noted otherwise here or in the section for that line of business.

In general, the historical experience factors for taxes, investment returns (investment income and capital gains less losses), and expenses were developed based on the results as allocated in the Annual Statement. The data sources included Annual Statement data and certain other sources developed for internal reporting. The data from such other sources were adjusted as needed to be consistent with to the Annual Statement amounts. However, expenses that were allocated to the Corporate Account (with one exception), along with associated taxes and investment income, were not allocated to the other lines of business, since these expenses generally related to MIHC functions, philanthropic expenses, and other corporate initiatives. The exception was the reversal of expense credits in the Corporate Account from 1993 through 1998 related to the prefunding of post-retirement benefits, thereby reducing expenses in the lines of business. These expense credits were allocated to product groupings for the calculation of ACs, based on the Company's financial management practices.

The prospective investment income, expense, and tax assumptions reflected recent experience.

1. Historical Rates of Investment Return and Accumulation Rates

The interest rates used in the historical AC calculations were derived from the assets and investment income and capital gains less losses allocated to each line of business in the Annual Statement. The rates were developed consistent with the Company's management practices with regard to investment income allocation during the historical period, and are net of defaults and investment expenses. IMR amortization was not included in the investment income rate calculation since all net capital gains were reflected in the capital gains rates in the year that they were incurred.

Prior to 1959 the Company determined a uniform rate of investment income on the assets of all lines of business. In 1959 the Company began to allocate portions of assets purchased in an investment year, and the income on those assets, to lines of business, based on the line's cash flow in that year. Beginning in 1959, for lines of business with policy loans, the cash flows from policy loans were included in the determination of cash flows available for investment by those lines. Investment income from policy loans was allocated directly to the lines of business that originated the loans.

In 1982 the Company established a separate segment of assets of its general account for the Group Annuities line of business and began to allocate assets to this product segment based on the characteristics of the associated liabilities. Product segments were established for other major lines of business over the next several years, with complete segmentation of the general account by major lines of business completed on July 1, 1985. (Additional product segments were added in subsequent years as needed when new businesses were introduced.) When needed, an investment year allocation methodology continued to be used to allocate investment income to product groupings within a product segment.

The AC calculations reflected the returns on separate account assets that back the policyholder liabilities of variable life insurance and annuity policies. These returns are passed through to policyholders and did not impact ACs directly. However, they do impact Policy account values, and, therefore, they impacted ACs to the extent that the contractual policy charges were a function of Policy account values.

The rates used to accumulate the historical contributions to surplus to the AC Date were set equal to the after-tax historical investment income rates for each product grouping, adjusted to remove the effect of policy loans, and excluding separate account performance.

2. Prospective Rates of Investment Return and Discount Rates

Assumed investment income rates for prospective ACs reflected the characteristics of the assets that were held in each product segment as of the end of the historical contribution period (June 30, 1998 for Policies in the Closed Block and March 31, 2000 for Policies not in the Closed Block), prevailing new money rates on or about those dates, and reinvestment strategies relating to the asset mix for each product segment. Projected investment cash flows were reduced to reflect provisions for defaults and investment expenses, such provisions reflecting Company experience. As the assets that were held as of the end of the historical contribution period were projected to mature or be repaid, they were assumed to be replaced with assets that earn the new money rates, as described above.

No future capital gains or losses were assumed in developing prospective investment income assumptions.

The return for equities backing separate account liabilities was based upon historical returns for equities.

Prospective contributions to surplus were discounted to the AC Date at risk-adjusted rates of return appropriate for the lines of business involved. Two rates were used - one for Policies in the Closed Block, and (except as noted below), another for all other Policies. (ACs for two small classes of Policies - Adjustable Life Policies and Survivorship Whole Life Policies issued after the Closed Block was formed - were discounted at the rate used for Closed Block Policies.)

The two risk-adjusted rates of return were selected so as to be generally proportionate to the rates of return on equity (ROE) that the Company has established as targets for its lines of business, as validated in comparison to actual ROE rates that have been achieved in the past.

3. Historical Expense Factors

Historical expense assumptions were developed by starting with line of business information on general insurance expenses (excluding commissions), miscellaneous taxes, licenses, and fees expenses, and additional payments for benefit plan expenses as reported in the Company's Annual Statements. For years in which a Corporate Account was maintained, the expenses in the Corporate Account (subject to the exception described above relating to the funding of post- retirement benefits) were ignored in the development of expense assumptions since they had not been reflected in the financial management practices of the lines of business.

Once the adjusted Annual Statement expenses were developed for each line of business, they were allocated to various product groupings within each line of business based on historical practices and available information. Expense assumptions were developed from these allocated expenses for use in developing historical ACs.

4. Prospective Expense Factors

Expense assumptions used in calculating prospective ACs were based on recent experience. For the individual lines of business, expense assumptions reflected recent experience and trends. For the Group Annuities line of business, expense assumptions reflected recent experience and trends, as well as a recent reengineering initiative. In general, for the Group Life and Health Insurance line of business, there was no specific projection of expenses, since the method used (described in Section VIII of this memorandum) did not require projection of individual sources of profit.

5. Historical Federal Income Tax Factors

The applicable US tax law is complex and has changed over time. The derivation of tax factors followed both the dynamics of the law in each time period and also the Company's approach for allocating taxes. Tax factors were developed to allocate the taxes that were reported for each line of business in the Annual Statements to the Policies in the lines of business.

Broadly, there were four major tax eras used in the historical period. Factors were developed that were consistent with applicable laws in each of those periods, to be applied to corresponding bases for the historical AC calculation.

For 1957 and prior years, Company-wide tax factors were developed as a function of investment income.

For 1958 through 1981, taxes were allocated based upon assets, investment income, interest paid credits, reserves, and premiums, depending upon line of business, and applied to corresponding bases.

For 1982 through 1983 (Stop-Gap Period), taxes were allocated based upon operating gains with only a partial deduction of dividends on non-tax qualified policies.

For 1984 and later years, taxes were allocated based upon on operating gains and an equity tax in those years in which an equity tax applied to the Company. During this period, the basis used to calculate deductible reserves and dividend liabilities differed from that used to report statutory earnings. For 1990 and later years, there was also a DAC proxy tax which was reflected in the ACs. Finally, the resulting total tax for the years 1982 through 1999 was adjusted to be consistent with the total tax reported in the Annual Statement for those years.

6. Prospective Federal Income Tax Factors

For the prospective AC calculations, the current corporate tax rate was applied to taxable income for the line of business (which reflected the differences between statutory and tax basis liabilities). No equity tax was applied since the equity tax does not apply to stock companies.

E. CALCULATION RULES THAT APPLY ACROSS LINES OF BUSINESS

1. Number of Prospective Years Recognized in the AC Calculation

For individual Policies, the prospective AC calculation covered the period from the AC Date through the end of the mortality or morbidity table or maturity or expiry of the Policy. For the Group Life and Health Insurance and the Group Annuities lines of business, the prospective AC calculations generally covered 30 years from the AC Date. However, in certain cases, different periods were used, based on the nature of a particular product; for example, the prospective AC for products that involve payment of annuities covered the period from the AC Date to the end of the mortality table.

2. Policies Whose Contribution to Surplus Is Taken Into Account

As a general rule, in calculating ACs, contribution to surplus was determined only for Policies that were in force as of the AC Date. However, in some cases, such Policies were considered to be continuations of policies that they replaced. In such cases, the contribution to surplus of the prior policy was considered to be part of the experience of the current Policy in determining the current Policy's AC. The financial management of each line of business was examined to determine when a current Policy should be deemed to be a continuation of a prior policy for purposes of determining ACs. Based on this examination, the AC calculations reflected the following:

a. Individual Life Insurance, Annuities, and Health Insurance. With respect to individual life, health and annuity business, the Company followed the general rule stated above, with three exceptions, all relating to recent exchange programs within the Individual Annuities line of business. In addition, the AC for each supplementary contract that resulted from the annuitization of a deferred annuity reflected the experience under that deferred annuity as well as the experience under the supplementary contract.

b. Group Annuities and Group Life and Health Insurance. There were a number of situations in which policies were replaced by new Policies but the relationships with the Eligible Policyholders were not interrupted, particularly with respect to the financial management of the policies. One example of such a situation was modernization of policies. In these situations, all or a portion of experience under the replaced policies was incorporated into the development of the AC for the Policy that was in force on the AC Date. Other situations arose involving mergers or divestitures of companies, in which policies may have been combined or split up in order to accommodate the policyholders' new corporate structures. In these situations, the development of the ACs generally followed the financial management practice of the Company.

3. Reinsurance

The Company has entered into various reinsurance agreements with reinsurers, some of which were affiliated with the Company and some of which were nonaffiliated. The treatment of these reinsurance agreements in the AC calculations was consistent with the Company's practice in managing these businesses, as described below.

The Company has ceded amounts of mortality and morbidity risks in excess of its retention limits to a number of nonaffiliated reinsurers. These reinsurance programs were designed to cover a wide range of policies. The Company's management practice has been to spread the net cost of this reinsurance - within a line of business - over all of the plans of insurance within the line that participated in the reinsurance program. This practice was reflected in the calculation of the ACs.

The Company has ceded proportional amounts of mortality and morbidity risks to nonaffiliated reinsurers for certain plans of insurance. In some instances, all risks under a group of policies were ceded pursuant to an indemnity reinsurance agreement. Each of these reinsurance programs was designed to apply to a specific product grouping. When the purpose of the reinsurance was to reduce the amount or volatility of the risk that was reinsured, the net cost was reflected directly in the calculation of the ACs for only those Policies in the reinsured grouping - that is, the net cost was not spread across other Policies outside the grouping.

In other situations, the treatment of the effect of the reinsurance in the AC calculation was spread across a broader grouping of Policies, consistent with the Company's historical financial management practices with regard to such reinsurance.

For certain blocks of business, the Company entered into reinsurance agreements with affiliates. However, where such reinsurance with affiliates existed, the Company managed policies in these blocks of business as if the reinsurance were not in effect and the ACs were calculated consistent with this management practice.

III. INDIVIDUAL LIFE INSURANCE - POLICIES IN THE CLOSED BLOCK

A. OVERVIEW AND METHODOLOGY

As described in Article II of the Plan, the Company formed and began operating a Closed Block of participating policies effective with its reorganization to a mutual insurance holding company structure on July 1, 1998.

The individual life line of business in the Closed Block consists of certain Adjustable Life policies and Traditional Life policies, including whole life, endowment, and certain term policies. All Policies in the Closed Block are eligible to receive dividends and are expected to receive dividends in the future.

For each Closed Block Policy in force as of the AC Date, the AC was calculated as the sum of:

(1) the annual historical contributions to surplus through June 30, 1998, accumulated with interest to the AC Date, plus
(2) the value as of the AC Date of expected future annual contributions to surplus from July 1, 1998 forward. Expected contributions to surplus associated with period July 1, 1998 through the AC Date were accumulated with interest to the AC Date at the rate of return assumed for funding the Closed Block. Expected contributions to surplus associated with periods after the AC Date were discounted to the AC Date using a risk-adjusted rate of return, as described in Section II.D.2 of this memorandum.

If the sum was negative, it was set to zero.

ACs were determined using a combination of the case-by-case approach and a modeling approach. Where models were used for prospective AC calculations, they were consistent with the Closed Block model, but for some plans, additional cells were used in order to attain more meaningful results. Under the modeling approach, ACs for Policies were determined by interpolation among the cells, as described below.

The assumptions regarding experience subsequent to June 30, 1998 were equivalent to those used in the Closed Block funding calculation. For prospective assumptions not applicable to the Closed Block funding, such as expenses and commissions, actual Company experience was analyzed and used as appropriate. Similarly, actual Company experience was analyzed and used as appropriate for all historical assumptions.

The gains or losses from disability benefit and accidental death benefit riders were allocated to all individual life insurance policies (both in and out of the Closed Block) and used as an offset to expenses (a decrease in the case of gains, and an increase in the case of losses). These allocations were consistent with the Company's financial management practices.

B. ADJUSTABLE LIFE

For Adjustable Life Policies in the Closed Block, historical ACs were calculated on a case-by- case basis, and prospective ACs were calculated on a model cell basis, consistent with the Closed Block model.

For the calculation of historical ACs, actual historical policy data were used for each Policy. Each Policy's annual contribution to surplus was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. No adjustment was made for full policy surrenders in the historical AC calculation. Annual historical contributions to surplus for each Policy were accumulated as described above in Section III.A. to arrive at its historical AC.

Historical assumptions for expenses and mortality (through June 30, 1998) were based on Company experience studies. Investment income through June 30, 1998 was determined for each Policy based on its cash flows and the prevailing rates, consistent with the Company's financial management practices. The assumptions regarding experience subsequent to June 30, 1998 were equivalent to those used in the Closed Block funding calculation.

The prospective ACs for Adjustable Life Closed Block Policies were determined using a model with cells based on insurance period and/or premium paying period, gender, risk class, issue years, and issue ages of the insureds. The prospective contribution to surplus for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. These future annual contributions to surplus were valued as of the AC Date as described above in Section III.A. to arrive at the prospective ACs for the model cells, and were then expressed as a function of face amount (per $1000 in force). Generally, prospective AC factors were determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

Prospective assumptions regarding experience subsequent to June 30, 1998 were equivalent to those used in the Closed Block funding calculation. For prospective assumptions not applicable to the Closed Block funding, such as expenses and commissions, actual Company experience was analyzed and used as appropriate.

The AC for a Policy was determined by combining its historical AC (determined on a case-by- case basis) with its prospective AC (determined on a modeling basis), as described in Section III.A. If the sum was negative, it was set to zero.

C. TRADITIONAL LIFE

In general, for Traditional Life, the historical ACs were calculated using a model through December 31, 1983, and then on a case-by-case basis through June 30, 1998. (For Survivorship Whole Life, both historical and prospective ACs were determined on a model cell basis using combinations of representative plans, issue ages, issue years, gender and risk classes.) The change to a case-by-case basis in 1984 was for greater consistency with the Company's financial management practices. The prospective ACs were calculated using substantially the Closed

Block model. The model that was used to determine the historical ACs through December 31, 1983 was based on the Closed Block model as well, but contained fewer cells.

The annual historical contribution to surplus for each year prior to June 30, 1998 was the premium for the year, plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. Coinsurance gains (losses) on the 1992 Term products were added for those products. There was no adjustment for policy surrenders in the historical calculation. The annual historical contributions for model cells were accumulated to December 31, 1983 and expressed generally as a function of face amount to arrive at AC factors as of that date. AC factors were determined for all Policies as of that date by interpolating between issue ages and issue years among the AC factors for the model cells. The resulting AC as of December 31, 1983 for each Policy was carried into the case-by-case portion of the historical AC calculation, beginning January 1, 1984.

Historical assumptions for expenses and mortality (through June 30, 1998) were based on Company experience studies. Investment income was determined based on cash flow for the model cell prior to 1984 and on policy cash flow and prevailing rates from 1984 through June 30, 1998, consistent with the Company's financial management practices. The assumptions regarding experience subsequent to June 30, 1998 were equivalent to those used in the Closed Block funding calculation.

The prospective contribution to surplus for each year following June 30, 1998 was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. Coinsurance gains (losses) on the 1992 Term products were added for those products. These annual contributions to surplus were valued as of the AC Date as described in Section III.A. The prospective AC factors for the model cells were generally expressed as function of face amount (per $1000 in force). Generally, prospective AC factors were determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section III.A. If the sum was negative, it was set to zero.

IV. INDIVIDUAL LIFE INSURANCE - POLICIES NOT IN THE CLOSED BLOCK

A. OVERVIEW AND METHODOLOGY

The Policies in the individual life line of business that are not in the Closed Block encompass these plans of insurance: Adjustable Life (AL 4 Policies generally issued July 1, 1998 through March 31, 2000), Survivorship Whole Life (generally issued July 1, 1998 through March 31, 2000), Universal Life, 97 Term, BOLI Universal Life, and Select Universal Life. Adjustable Life Policies and Survivorship Whole Life Policies are eligible to receive dividends and are expected to receive dividends in the future. The other Policies have not received dividends and are not expected to receive dividends in the future.

The historical ACs were calculated on a case-by-case basis for Universal Life (except for Survivorship plans that insured more than one life at issue). They were calculated on a model cell basis for Survivorship Whole Life, 97 Term, Survivorship Universal Life, Adjustable Life, and BOLI Universal Life. The prospective ACs were calculated on a model cell basis for all product groupings.

For each Policy in force as of the AC Date, the AC was calculated as the sum of:

(1) the annual historical contributions to surplus through the AC Date, accumulated with interest to the AC Date, plus
(2) the present value of expected future annual contributions to surplus discounted to the AC Date using a risk-adjusted rate of return, as described in Section II.D.2 of this memorandum.

If the sum was negative, it was set to zero.

Except where noted, the past financial results of the Company were analyzed to determine experience factors for use in determining the historical AC. Assumptions about future experience were based on analyses of the Company's recent past experience, adjusted when appropriate to reflect changes in its way of conducting business.

The gains or losses from disability benefit and accidental death benefit riders were allocated to all individual life insurance policies (both in and out of the Closed Block) and used as an offset to expenses (a decrease in the case of gains, and an increase in the case of losses). These allocations were consistent with the Company's financial management practices.

B. ADJUSTABLE LIFE

The historical ACs for Adjustable Life Policies were determined using a model with cells based on issue age, gender, risk class, and period of issue (i.e., before or after April 1, 1999). The contribution to surplus for each year was premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. No policy surrenders were assumed in the historical period.

The annual historical contributions to surplus for the model cells were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the cell. The historical AC factor for each model cell was determined by expressing its historical AC as a function of face amount (per $1,000 in force). Historical AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

The mortality, persistency, expense, investment earnings, and dividend assumptions used for the historical and prospective ACs are those that the Company used in pricing this product (except that lapse rates for the historical AC period were set to zero) since these Policies are very recent issues with little or no credible experience.

The prospective AC for Adjustable Life Policies was determined using the same model as was used for the calculation of historical ACs. The prospective contribution for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. These annual contributions to surplus were discounted to the AC Date as described in Section IV.A. to arrive at the prospective AC for the cell. The prospective AC factor for each model cell was determined by expressing its prospective AC as a function of face amount (per $1000 in force). Prospective AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section IV.A. If the sum was negative, it was set to zero.

C. SURVIVORSHIP WHOLE LIFE

The historical ACs for Survivorship Whole Life Policies were determined using a model with cells based on issue age, issue year, gender, and risk class. The contribution to surplus for each year was premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. No policy lapses were assumed in the historical period.

The annual historical contributions to surplus for the model cells were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the cell. The historical AC for each model cell was allocated to the Policies in that model cell based upon face amount (per $1000 in force).

These policies are similar to Survivorship Whole Life Policies that are in the Closed Block. As a result, the assumptions used in the development of the historical and prospective ACs were consistent with those used to determine the ACs for the Survivorship Whole Life policies that are in the Closed Block, except for investment income and dividends, which were adjusted to reflect the earnings of the assets that support the policies that are not in the Closed Block.

The prospective AC for Survivorship Whole Life Policies was determined using the same model as was used for the calculation of historical ACs. The prospective contribution for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, policy dividends, and federal income taxes. These annual contributions

to surplus were discounted to the AC Date as described in Section IV.A. to arrive at the prospective AC for the cell. The prospective AC for each model cell was allocated to the Policies in that model cell based upon face amount (per $1000 in force).

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section IV.A. If the sum was negative, it was set to zero.

D. UNIVERSAL LIFE, EXCLUDING SURVIVORSHIP UNIVERSAL LIFE

The historical AC calculation was done on a case-by-case basis, using actual historical data for each Policy.

The historical annual contributions to surplus were based upon an earnings by source method. The sources were interest, mortality, expense, and miscellaneous gains, all adjusted for federal income taxes. No adjustment was made for policy surrenders in the calculation of historical ACs. The annual historical contributions to surplus were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the Policy.

Historical assumptions for expenses and mortality were based on Company experience studies. Historical investment income was based on the general method described in Section II.D.1.

The prospective ACs were determined using a model with cells based on funding level (i.e., ratio of account value to face amount), issue years, issue ages, gender, risk classes and death benefit options (for certain variable universal life policies) for the Policies.

The prospective contribution to surplus for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. These annual contributions to surplus were discounted to the AC Date as described in Section IV.A. The prospective AC factor for each model cell was determined by expressing its prospective AC as a function of face amount (per $1000 in force). Prospective AC factors were then determined for all Policies by interpolating between issue ages and funding levels among the AC factors for the model cells.

Prospective assumptions for expenses, mortality, policy lapse and premium persistency were based on Company studies. Prospective credited rates were based on assumed prospective earned rates less pricing spreads for general account business, and on assumed prospective separate account performance less contractual charges for separate account business.

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section IV.A. If the sum was negative, it was set to zero.

E. SURVIVORSHIP UNIVERSAL LIFE

The historical ACs for Survivorship Universal Life Policies were determined using a model with cells based on plan, issue age, gender, and risk class. The historical contribution to surplus for each year was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. No full policy surrenders were assumed in the historical period.

The annual historical contributions to surplus for the model cells were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the cell. The historical AC factor for each model cell was determined by expressing its historical AC as a function of face amount (per $1000 in force). Historical AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

The mortality, persistency, premium level, expense, investment earnings, and interest crediting assumptions used for the historical and prospective ACs are those that the Company used in pricing these products (except that lapse rates for the historical AC period were set to zero) since these Policies are very recent issues with little or no credible experience.

The prospective ACs for Survivorship Universal Life Policies were determined using the same model as was used for the calculation of historical ACs. The prospective contribution to surplus for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. These annual contributions to surplus were discounted to the AC Date as described in Section IV.A. to arrive at the prospective AC for the cell. The prospective AC factor for each model cell was determined by expressing its prospective AC as a function of face amount (per $1000 in force). Prospective AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section IV.A. If the sum was negative, it was set to zero.

F. 97 TERM POLICIES

The historical and prospective AC factors were determined using a model with cells based on issue year, issue age, gender, risk class, and term plan. The historical contribution to surplus for each year was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. Reinsurance gains and losses were reflected in these items. No policy lapses were assumed in the historical period.

The annual historical contributions to surplus for the model cells were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the cell. The historical AC factor for each model cell was determined by expressing its historical AC as a function of face amount (per $1000 in force). Historical AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

Historical assumptions for expenses and mortality were based on Company experience studies. Historical investment income was based on the general method described in Section II.D.1.

The prospective contribution to surplus for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. Reinsurance gains and losses were reflected in these items. These annual contributions to surplus were discounted to the AC Date as described in Section IV.A. to arrive at the prospective AC for the cell. The prospective AC factor for each model cell was

determined by expressing its prospective AC as a function of face amount (per $1000 in force). Prospective AC factors were then determined for all Policies by interpolating between issue ages among the AC factors for the model cells.

Prospective assumptions for expenses and mortality were based on Company studies. The policy lapse assumptions reflected those that the Company used in pricing.

The AC for a Policy was determined by combining its historical AC with its prospective AC, as described in Section IV.A. If the sum was negative, it was set to zero.

G. BOLI UNIVERSAL LIFE

BOLI Universal Life is managed by the Company at the "case" level, where a case consists of one or more Eligible Policyholders, each of which owns multiple Policies. The ACs were determined at the case level and allocated to Eligible Policyholders on a basis consistent with the historical financial management practices of the case.

The historical ACs for BOLI Universal Life Policies were determined using a model with cells based on plan (reflecting variations by case), issue age, and, in some cases, risk class. The contribution to surplus for each year was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains less benefits, commissions, expenses, and federal income taxes. No policy surrenders were assumed in the historical period.

The annual historical contributions to surplus for the model cells were accumulated to the AC Date as described above in Section IV.A. to arrive at the historical AC for the cell.

Historical assumptions for expenses and mortality were based on Company experience studies. Historical investment income was based on the general method described in Section II.D.1.

The prospective ACs for BOLI Universal Life Policies were determined using the same model that was used to determine the historical ACs. The prospective contribution to surplus for each year was the premium for the year plus investment income and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. These annual contributions to surplus were discounted to the AC Date as described in Section IV.A. to arrive at the prospective AC for the cell.

Prospective assumptions for expenses were based on pricing assumptions and Company studies. Assumptions for mortality reflected Company studies as well as an analysis prepared by a third party. Prospective investment return less interest credited reflected case-specific assumptions that were used in pricing. Prospective lapse rate assumptions reflected contractual provisions as well as the implications under current tax law of transferring money to other carriers.

The AC for Policies in a cell was determined by combining the historical AC for the cell with the prospective AC for the cell. If the sum was negative, it was set to zero. The AC for each case was equal to the sum of the ACs of the Policies that were in its cells. The AC determined at the case level was allocated to Eligible Policyholders within each case on a basis consistent with the historical financial management practices of the case.

H. SELECT UNIVERSAL LIFE

Based on an analysis of experience for this business, the AC was determined to be zero for all Select UL policies.

V. INDIVIDUAL HEALTH POLICIES

A. OVERVIEW AND METHODOLOGY

The individual health line of business consists of three product groupings: individual disability income (IDI), individual medical and long term care (LTC) Policies. The LTC business includes both group and individual Policies. The group LTC Policies (which are reported in the Group Health line of business in the Annual Statement) are managed internally with the individual LTC Policies because the coverages are voluntary and have been marketed to individuals, although issued through multiple employer trusts.

The Company ceded 100% of the individual medical policies to Washington National in 1983 through an indemnity reinsurance agreement. Pioneer Financial administers this block for Washington National. The Company transferred assets to Washington National that were less than the statutory reserves held at the end of 1982. No ceding commissions were paid after the transfer of assets.

At the end of 1996, the Company ceded 100% of all LTC Policies through an indemnity reinsurance agreement with MedAmerica, which also services the LTC business. The Company received ceding commissions at that time, but there have been no additional ceding commissions paid to the Company.

The Company continues to maintain the risk on the IDI business, but cedes to reinsurers the portion of any risk that is in excess of its retention limits.

The historical contribution to surplus for each year for was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, federal income taxes and increases in reserves and dividend liability. No policy lapses were assumed in the historical period.

For the individual medical and LTC Policies, the prospective AC was set to zero, since these businesses are 100% reinsured, and the Company will not receive any future ceding commissions, thus providing no source of prospective contribution to surplus. For the IDI Policies, the prospective contribution to surplus for each year was premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, federal income taxes and increases in reserves and dividend liability. Assumed policy lapses were reflected in the prospective period.

The historical ACs for each of the Individual Health product groupings, and the prospective ACs for the IDI product groupings were functions of annualized premium, varying by plan grouping (using a representative plan for each such grouping) and issue year. Some groupings consisted of a single plan, and others consisted of several plans.

For each Policy in force as of the AC Date, the AC was calculated as the sum of:

(1) the annual historical contributions to surplus through the AC Date, accumulated to the AC Date, plus
(2) the present value of the expected future annual contributions to surplus from the AC Date forward, discounted to the AC Date.

If the sum was negative, it was set to zero.

The following sections describe the specific methodologies used to determine the ACs for each of the three product groupings.

B. Individual Disability Income

The IDI business consists of disability income, business overhead and buy-out policies. Most of the business is non-cancelable. The Company began selling IDI policies in the early 1950s.

The ACs for the IDI business were developed using a modeling approach. Development of both historical and prospective ACs was based on representative plans, issue years, gender, issue ages, elimination periods, and benefit periods. Every in-force Policy was represented by one model cell. Because actual experience was available only at the plan level, historical and prospective AC factors, which are a function of annualized premium, vary only by the representative plan and issue year.

1. Historical AC Calculations

For each model cell, year-by-year historical contributions to surplus as described in Section V.A. were determined and accumulated to the AC Date. The historical AC factor for each Policy within a plan grouping was calculated by dividing the accumulated historical contributions to surplus for all cells with the same representative plan and issue year by the total annualized premium for all cells with the same representative plan and issue year.

Morbidity and commissions were modeled based on pricing assumptions. Expenses were modeled based on management operating expense targets. Modeled policy dividends reflected the amounts paid to representative plans. These assumptions were adjusted to reflect actual variations by calendar year in aggregate financial results as reflected in the Annual Statement and in data submitted to the State of New York under its Regulation 62. No lapses were assumed during the historical period. Net investment income, capital gains and federal income taxes were modeled consistent with the description in Section II.D.

2. Prospective AC Calculations

For each model cell, the year-by-year future contributions to surplus were determined as described in Section V.A. and discounted to the AC Date. The prospective AC factor for each Policy within a plan grouping was calculated by dividing the present value of future contributions to surplus for all cells with the same representative plan and issue year by the total annualized premium for all cells with the same representative plan and issue year.

Prospective assumptions for morbidity and commissions were based on pricing assumptions, as was done for historical ACs. Prospective expenses reflected 1999 expense levels. Prospective persistency was based on pricing assumptions. These assumptions were adjusted to reflect average experience in aggregate financial results for calendar years 1995 through 1999 as reflected in the Annual Statement and in data submitted to the State of New York under its Regulation 62. Prospective policy dividends were set to zero since no future policy dividends are expected to be paid. Net investment income, capital gains and federal income taxes were modeled consistent with the description in Section II.D.

The total AC factor for each Policy was the sum of the historical AC factor and the prospective AC factor. The total AC for a Policy was determined by applying its total AC factor to its annualized premium. If the total AC was negative, it was set to zero.

C. INDIVIDUAL MEDICAL

The individual medical business consists of individual hospital, surgical, major medical and accident expense policies. Principal began selling individual medical policies in the early 1950s. The business has been 100% reinsured through indemnity reinsurance with Washington National since 1983. The Company recognized a gain on this reinsurance agreement.

1. Historical AC Calculations

For the purpose of calculating historical ACs, Policies were assigned to groupings of similar plans. The annual historical contributions to surplus for each grouping were determined as described in Section V.A, and an average annual contribution to surplus as percent of written premium was determined for each grouping representing the overall contribution to surplus for the plan grouping prior to January 1, 1983.

The historical AC factor (as percent of annualized premium) for each in-force Policy was determined by accumulating the average annual historical contributions to surplus as a percentage of written premium for the specific plan grouping from the issue year through 1982. The contributions to surplus were then accumulated to the AC Date. The historical AC factor for each in-force Policy was increased to reflect the allocation of the after-tax statutory gains resulting from the reinsurance agreement, with such allocation in proportion to the Policy's accumulated contributions to surplus at the AC Date.

Net investment income, capital gains and federal income taxes were modeled consistent with the description in the Section II.D.

2. Prospective AC Calculations

The prospective ACs for all Individual Medical Policies were zero, as described above in Section V.A. of this memorandum.

The total AC factor for each Policy was the historical AC factor. The AC for each Policy was determined by applying its AC factor to its annualized premium. If the total AC was negative, it was set to zero.

D. LONG TERM CARE

The LTC business consists of group and individual LTC policies. Principal began selling LTC policies in 1989. At the end of 1996, Principal reinsured 100% of the risk on its LTC business through indemnity reinsurance through MedAmerica. The only new LTC business that Principal currently issues is a group LTC policy sold only to Principal employees. This business is also 100% reinsured.

1. Historical AC Calculations

For the purpose of calculating historical ACs, policies were assigned to groupings of similar plans. The annual historical contributions to surplus for each grouping were determined as described in Section V.A, and an average annual contribution to surplus as percent of written premium was determined for each grouping, representing the overall contribution to surplus for the plan grouping prior to January 1, 1997.

The historical AC factor (as percent of annualized premium) for each in-force Policy was determined by accumulating the annual historical contributions to surplus as percentages of written premium for its plan grouping from the issue year through 1996. The contributions to surplus were then accumulated to the AC Date. The historical AC factor for each in force Policy was increased to reflect the allocation of the after-tax statutory gains resulting from the reinsurance agreement, with such allocation in proportion to the Policy's accumulated contributions to surplus at the AC Date.

Net investment income, capital gains and federal income taxes were modeled consistent with the description in Section II.D.

2. Prospective AC Calculations

The prospective ACs for all LTC Policies were zero, as described in Section V.A.

The total AC factors were negative for all plan groupings and thus were set to zero, so that the AC for each LTC Policy was zero.

VI. INDIVIDUAL ANNUITIES

A. OVERVIEW AND METHODOLOGY

The Individual Annuities line of business consists of three product segments: Traditional Individual Annuity, Alternative Individual Annuity, and Individual Variable Annuity.

The Traditional Individual Annuity product segment includes several annuity products that have been offered over various periods in the past but are no longer offered for sale. It includes single premium, fixed premium and flexible premium products. These products are general account- only products. This product segment also includes annuities in payout status which originated from deferred annuities.

The Alternative Individual Annuity product segment includes products that are currently offered for sale. This product segment includes both single premium and flexible premium deferred annuity products, which are general account-only.

The Individual Variable Annuity product segment includes products that are currently offered for sale. It includes both single premium and flexible premium deferred products, which offer both general account and separate account options.

Historical AC calculations were done on a case-by-case basis, and prospective AC calculations were done on a modeling basis, with each Policy assigned to a model cell.

For each Policy in force as of the AC Date, the AC was calculated as the sum of:

(1) the annual historical contributions to surplus through the AC Date, accumulated to the AC Date, plus
(2) the present value of expected future annual contributions to surplus from the AC Date forward, discounted to the AC Date.

If the sum was negative, it was set to zero.

B. HISTORICAL CALCULATIONS

Historical ACs were determined on a case-by-case basis, using an earnings by source method. The annual contribution to surplus was calculated for each year the Policy was in force by applying factors determined for each source of gain to the appropriate base obtained from historical records.

When an AC calculation included the experience of a prior policy (that is, the prior policy had been exchanged for the current Policy), such experience was reflected on an estimated basis by examining the experience of Policies with similar plan, issue year, issue month, and duration characteristics at the time of exchange.

The historical contribution to surplus in each calendar year was the sum of the following sources of earnings (adjusted for federal income taxes). The annual sources of gain were accumulated to the AC Date to arrive at the historical AC for a Policy. An adjustment was made to the historical AC to reflect the fact that the account values used in the calculations were not equal to statutory reserves. This adjustment was made for each Policy.

1. Investment Gain

Generally, the investment gain for the general account business for each year was equal to the net investment income plus capital gains less losses minus interest credited to the account value. The net investment income and capital gains less losses were determined at the product segment level for each year and used for all Policies in the product segment, based on Annual Statement information and internal Company reports. Interest credited for each year was also determined at the product segment level, using detailed information from the historical files. This investment gain was expressed as a percentage of the total account value for the product segment. The investment gain factors for each year were applied to corresponding average account values for each Policy in the product segment to determine its investment gain.

Alternatively, if a product provided for a fixed interest spread such as a fixed basis point charge (as with separate account products), the investment gain for a Policy was calculated as the fixed spread times the policy's average account value for the year. These fixed basis point charges include Mortality and Expense charges ("M&E charges"), administration fees, and fund management fee reimbursements.

2. Expense Gain

The expense gain was the excess of expense loads over the corresponding expenses incurred, including commissions and taxes other than federal income taxes.

Factors for expenses and taxes incurred (excluding federal income taxes) were derived at the product segment level for each calendar year, using Annual Statement information and internal Company reports. Commissions were based on historical commissions schedules. Factors were per policy, percent of premium and percent of fund value. These factors were applied to the corresponding bases for each Policy, based on the detailed historical information that was available, to derive expenses incurred.

To determine the historical expense gain for each Policy, the actual loads (available from the historical files) were deducted from the expenses incurred.

3. Gain from Partial Withdrawals

The gain from withdrawals included any surrender charge from partial withdrawals, which was available from the detailed historical information. No gain from full withdrawals (surrenders) was included in the historical AC.

C. PROSPECTIVE CALCULATIONS

For prospective ACs, AC factors were developed on a modeling basis, using representative plan/issue year model cells. The prospective contribution to surplus for each year was the premium for the year plus investment income, capital gains less losses, and other miscellaneous gains, less benefits, commissions, expenses, and federal income taxes. These future annual contributions to surplus were discounted to the AC Date as described above in Section VI.A. to arrive at the prospective ACs for the model cells, and were then expressed as a function of account value at the AC Date. The prospective AC for a Policy was determined by applying the prospective AC factor for its model cell to its account value at the AC Date.

Assumptions for prospective investment income and expenses were based on Company expectations and recent Company experience studies. Assumptions for prospective terminations (deaths, full and partial withdrawals, and annuitizations) were based on recent Company experience where available, and were supplemented with pricing assumptions as necessary.

1. Investment Income and Credited Rates.

Projected earned rates were developed by product segment for general account business based on the general approach discussed in Section II.D. Projected credited rates for Traditional Individual Annuities were based on recent credited rates. Projected credited rates for Alternate Individual Annuities and the general account of Individual Variable Annuities were based on earned rates for the product segment less projected interest spreads for each future calendar year, which were based on recent historical experience and Company expectations. For separate account business, the investment spread was the sum of contractual M&E charges, administration fees, and net investment management fees.

2. Premiums

Future premium payments on deferred annuities were based on recent payment patterns or pricing assumptions. Separate assumptions were used for each product segment.

3. Terminations

Assumptions for prospective terminations (full and partial surrenders, annuitizations and deaths) were based on recent experience studies, and supplemented by pricing assumptions.

4. Expenses

Prospective expenses (other than commissions) were based on 1999 factors. Prospective commissions were consistent with the commission scales used for the historical calculation. Generally, commissions as a percent of premiums were based on rates in effect on the issue date of the Policy. Enhanced commissions, as a percent of account value, were recently introduced by the Company for some products. These enhancements were assumed to continue.

VII. GROUP ANNUITIES

A. OVERVIEW AND METHODOLOGY

The Group Annuities line of business consists of two product segments: Policies whose general account business is not experience-rated ("guaranteed" business) and Policies whose general account business is experience-rated ("experience-rated" business). Some products within each type may have a separate account component in addition to the general account component. There are also separate account-only products.

The guaranteed business consists primarily of products sold in the 401(k) market (with general account and separate account options, as well as payout options), guaranteed interest contracts, a single premium product, and investment only contracts with guaranteed crediting rates (general account only).

The experience-rated business consists primarily of unallocated contracts used for funding defined benefit plans (with both general and separate account options), as well as some group life insurance products (permanent and term products), which provide group life insurance and defined benefit funding for retirement benefits.

Both historical and prospective AC calculations for the guaranteed and experience-rated group annuity business were determined on a case-by-case basis using an earnings by source approach. The historical and prospective ACs for the group term life insurance business included in the Group Annuities line were determined on a net profit percentage (NPP) approach.

For each Policy in force as of the AC Date, the AC was calculated as the sum of:

(1) the annual historical contributions to surplus through the AC Date, accumulated to the AC Date, plus
(2) the present value of expected future annual contributions to surplus from the AC Date forward, discounted to the AC Date.

If the sum was negative, it was set to zero.

B. GUARANTEED AND EXPERIENCE-RATED GROUP ANNUITIES AND LIFE OTHER THAN GROUP TERM

1. Historical AC

Historical financial information, such as historical reserves and pricing margins, were used in the development of historical ACs. The factors for the sources of earnings varied between the product groupings (guaranteed and experience-rated), and within these groupings, also varied by year, among products, by liability type (i.e., retired vs. active lives). Sources of earnings used for one or more products were:

a. Profit margin.

This is the pricing margin for contribution to surplus for a Policy in a given year.

b. Gain from general expense

These factors were the difference between expenses charged to a Policy and the expenses allocated to the Policy. These factors were product-specific for both experience-rated and guaranteed business, and incorporated the effects of the reengineering effort described in Section II.D.4, above.

c. Gain from investment income.

These factors were the difference between the investment income earned by the Company (net of expenses and profit margins) and the investment income credited to the Policy. For the guaranteed business, these factors varied by year, but not by Policy. These factors were set to zero for experience-rated Policies since investment gains and losses were credited directly to the Policies.

d. Gain from investment expense.

These factors were the difference between the expenses charged to a Policy for investment services and the investment expenses allocated to the Policy by the Company. These factors were determined separately for the experience-rated and guaranteed product groupings for general account business. All separate accounts were combined to determine the separate account factor.

e. Retro gain

These factors were the rate of gain or loss experienced by a Policy in a given year resulting from the timing of execution of separate account trades. This source applies only to Policies with separate accounts.

f. Gain from reserve

These factors were the difference between expected reserves (based on valuation assumptions) and actual reserves. These factors were determined on a combined aggregate basis for deferred and retired lives for guaranteed general account balances only.

g. Capital gains.

These factors were based on the amount of capital gains less losses in a year that were not credited to the Policy or, for experience-rated Policies, deferred through the IMR mechanism, and were not included in the interest on surplus factor. They were calculated separately for each general account product grouping for each year.

h. Miscellaneous gains

This was the remaining amount of contribution to surplus in a year that was not captured by the other factors described above. For 1982 through 1999, an average gain factor for the period was applied to all policies in all years in that period. For all other years, the miscellaneous gain factor varies by year, but is the same for all Policies.

Items specific to either guaranteed or experience-rated group annuity business are noted below.

- - For guaranteed business, the historical ACs were calculated separately for active and retired lives funds in the general account and separately for the separate account. Profit margins varied by timing of deposits and by product. Guaranteed Interest Fund products have profit margins that are policy-specific.

- - For guaranteed business, the general expense gain was product-specific and also varied by year. The other sources of earnings factors varied by year and were the same for all guaranteed business products.

- - For experience-rated business, the gain from general expenses varied by product and by year (as for guaranteed business). The profit margins for experience-rated business varied among certain product groupings. Aside from investment income and reserve gain factors, the other gain factors sometimes varied by product as well as by year. In addition, the gains from investment income and from reserves were zero for experience-rated business, since all such gains were passed directly to the Policy.

2. Prospective AC

Source of earnings factors were applied to the projected fund balances (generally mean reserves) in determining prospective ACs. If the product was one for which recurring premiums/deposits were being made, expected premiums/deposits were included in the development of projected fund balances. Projections of fund balances reflected product-specific lapse assumptions where appropriate, based on recent experience.

In projecting fund balances, interest credited was reset annually to reflect changes in portfolio earned interest for all experience-rated Policies. For guaranteed Policies (except for those with fixed credited rates), it was graded from an initial rate to an ultimate rate, based on expected rollover. Policy lapse rates for all future years were set equal to the average of 1997-1999 annual effective policy withdrawal rates. The benefit withdrawal rates (for other than retirement) were set equal to the average of the 1997-1999 experience. The retirement withdrawal rates were based on the 1999 experience, and projected based on government statistics relating to the aging of the employed population.

The possible prospective sources of earnings were as follows.

a. Profit margin.

These gain factors were based upon pricing margins for funds coming from expected future deposits, and on projected future pricing margins for existing reserves of a contract. For

guaranteed business products, some factors were set at policy inception, and others graded into the new business factor over a policy-specific period. The gain factors were composites of factors for general account and separate account, and also for active and retired or payout annuities. For experience-rated Policies, the charge at the AC date was held level for all future years.

b. Gain from general expense.

These gain factors varied by product, reflecting average historical experience, adjusted for the removal of non-recurring expenses.

c. Gain from investment expense

These gain factors were determined separately for general account guaranteed business, general account experience-rated business, and separate account. The prospective gain factors were set equal to the respective 1999 factors used in the historical calculation.

d. Gain from investment income

For guaranteed business, the gain is the difference between the projected interest earned (net of expenses and profit margins) for all guaranteed business and the investment income credited to Policies. This rate of gain varies by year. Since experience-rated Policies participate in investment experience, there is no corresponding gain factor for that product grouping.

e. Gain from reserve

These factors were determined on an aggregate basis (for active and retired lives combined) for guaranteed general account balances only.

C. GROUP TERM LIFE

1. Historical AC

For Group Term, the historical AC was calculated as a percentage of incurred premiums, which is consistent with how the historical AC was calculated for the group life business that is included with the Group Life and Health line as described in Section VIII.

2. Prospective AC

For Group Term, the prospective ACs were calculated as a percentage of projected premiums, consistent with the method used for historical ACs.

VIII. GROUP LIFE AND HEALTH INSURANCE

A. OVERVIEW AND METHODOLOGY

The Group Life and Health line of business consists of three major product groupings: Large Group, Small Group and Group Universal Life (GUL). Within these product groupings the business has been managed by "product line" (defined below in sections B., C. and D). A group within Large Group or Small Group had one or more of the following coverages: Group Term Life, Long Term Disability (LTD), Short Term Disability (STD), Accidental Death and Dismemberment (AD&D), Medical, Medicare Supplement, Prescription Drug, Dental or Vision.

There were two methods for determining the AC within Group Life and Health: earnings by source and net profit percentage (NPP). The choice of method was related to how the business was managed and also on the data available.

Under the earnings by source method (which was used for some historical calculations) gain or loss percentages were determined for each calendar year for each source of earnings, based on historical experience studies. These annual percentages were applied to the corresponding historical bases, which were obtained from detailed historical data for each group for each applicable policy year to derive the total earnings by source. The annual contributions to surplus for each group were accumulated to the AC Date to determine the historical AC for that group.

The net profit percentage method was used for some historical calculations and all prospective calculations.

For historical calculations under the NPP method, the net profit for each calendar year during the historical period was expressed as a percentage of total premiums for that year (using the premium equivalent for groups with Minimum Premium (MPP) or Defined Liability Funding (DLF) arrangements. Historical net profit was based on information from internal financial reports and the Company's Annual Statements, and was defined as the after-tax profit adjusted to remove investment income and capital gains less losses associated with the surplus.

For the years 1940 through 1969, NPPs were available separately for the Group Life and Group Health lines of business, but not by product lines within the statutory lines of business. From 1970 through the AC Date, NPPs were available (or were estimated) by product line and within Large and Small Group, were also available by "summary coverages" (i.e., Life, Health, and LTD). The annual contributions to surplus for a group were determined by applying the NPP factors by the corresponding premiums. These annual contributions to surplus were accumulated to the AC Date to determine the historical AC for that group.

Prospective NPPs (as a percentage of prospective premiums) and key prospective assumptions (such as premium, lapse, trend, and mortality) were based on recent historical experience, financial forecasts, and pricing assumptions. This was generally done by product line and by summary coverages. However, case-specific experience was reflected in certain instances for Large Groups and certain GUL groups issued outside of the GUL Trust. Prospective contributions to surplus were determined by applying the NPPs to the corresponding prospective

premiums. These contributions were discounted to the AC Date to determine the prospective AC for the group.

The total AC for a Policy was generally the sum of the historical and prospective ACs as described above. If this total AC was negative, it was set to zero. However, there are situations in which coverages or groups were historically managed together from a financial perspective (e.g., for policy year reconciliations, for rate setting, etc.). In such cases, this historical financial management practice was followed for the AC calculations. This is referred to as "linking" the ACs. In situations involving linking, the total AC for a Policy was the algebraic sum of the linked ACs (i.e., positives offsetting negatives), but if the sum was negative it was set to zero.

The AC for Group Universal Life for a group was never linked to the ACs of its other Group Life and Health coverages. The ACs for GUL were determined separately (i.e., historical AC added to prospective AC, and set to zero if negative), and this result was added to the total (non- negative) AC of the other coverages.

B. LARGE GROUP

The Large Group product line consists of employer groups and association groups that are prospectively experience-rated, typically insuring more than 100 employee lives. These groups may be fully insured and traditionally funded, or have an alternate funding arrangement such as MPP or DLF.

The ACs for Large Group were developed on a case-by-case basis using a combination of methods. The earnings by source method was used for the portion of the historical period for which assumptions were available from historical studies and detailed historical data were available at the group level for a majority of the eligible Large Groups (generally, for policy years beginning in 1987 and later). The NPP method was used for the balance of the historical period, and for the prospective period.

1. Historical ACs

The major source of case-specific data for Large Group was the Policy Year Reconciliations (PYR). These were available for almost every large group for each policy year beginning in 1987 and later, regardless of whether the group was eligible for an experience premium refund. Where case-specific data were not available, an NPP approach was used.

Generally, for policy years beginning in 1987 and later, the ACs were developed for each group using the earnings by source method. The specific sources of earnings were:

a. Gain from Investment

The gain from investment for each year was the difference between investment return (investment income plus capital gains less losses) and interest credited in the historical PYR calculations. The investment return was determined as described in Section II.D.1.

b. Gain from Expenses

The gain from expenses for each year was the difference between the expenses charged in the historical PYR calculations and the actual expenses incurred. This gain was determined in the aggregate for all groups based on information in internal management reports for Large Group. The annual gain for all Large Groups was expressed as a percentage of expenses charged to all Large Groups. This expense gain percentage was then applied to each group's expense charge to determine the group's expense gain.

c. Gain from Pooling

The gain from pooling for each year was the difference between the pooling charges and the pooled claims, both obtained from the historical PYR calculations. These gains were determined for all groups in a pool as a percentage of the pooling charge for each year. This pooling gain percentage was then applied to each group's pooling charge to determine the group's pooling gain.

d. Gain from Conversions

The gain from conversions for each year was the difference between the conversion charges in the historical PYR calculations and the actual cost of conversions based on information obtained from internal management reports for Large Group. The gain for all Large Groups was expressed as a percentage of the conversion charges made to all Large Groups. This percentage was then applied to each group's conversion charge to determine the group's conversion gain.

e. Gain from Risk Charge

The gain from risk charge for each year was the difference between the risk charges and the actual cost of deficits incurred, both obtained from the historical PYR calculations. This gain was expressed for all Large Groups as a percentage of the risk charge for all Large Groups for each year. This percentage was applied the each group's risk charge to determine the group's risk charge gain.

f. Profit Charge

This was the explicit profit charged to each group in its historical PYR calculations.

g. Gain from Reserves at Termination

The gain from reserves was the difference between the reserves charged a group in the PYR calculations and the actual reserves needed at time of termination of the group or coverage.

These annual contributions to surplus were accumulated to the AC Date and were adjusted for federal income taxes, as described in Section II. D.

For other historical years, the NPP method was used, as described above. NPPs for the four policy years prior to the use of the earnings by source method were adjusted case-by-case to grade to the levels produced by the earnings by source method.

Actual premium for each group was used in the NPP calculation when available. Premium equivalents were used for MPP and DLF groups. If the premium for a group was not available for a given year, an estimated premium was used in this calculation. Premiums were estimated by spreading the total premium since inception (which was obtained from the earliest available PYR for the group) back to the effective date of the group.

2. Prospective ACs

The NPPs for the prospective period were based upon a case-specific average of the NPPs for recent policy years in the historical period, and an assumption that Large Group as a whole would attain its targeted pricing margins by the fourth year of the prospective period, although some groups would attain their targeted pricing margins sooner, and others later, than the fourth year.

For each group, its recent historical average NPP (expressed as a percentage of the premiums earned over the same four policy year history) was used as the starting point for its prospective NPPs, and was used to determine the prospective AC for the balance of calendar year 2000. (i.e., March 31 to December 31). Based on this case-specific average NPP, the future NPPs were projected consistent with the overall assumption for attainment of the targeted pricing margin, reflecting differences among the groups as to type of coverages insured. In all instances, groups were assumed to attain the targeted pricing margin no later than the fifteenth projection year.

For each group, for each coverage, recent average monthly premiums were used as the basis for projecting the future premiums. Trend and lapse assumptions were applied to this premium at each group's policy anniversaries. Premium equivalents were projected for DLF and MPP groups. The prospective premium by coverage by year for each group was aggregated into the summary coverages. The Prospective NPP for that year was applied to determine the AC for that group and year. The AC amounts for each year were then discounted to the AC Date using the prospective discount rates to determine the total prospective AC for that group.

C. SMALL GROUP

Small Group generally consists of groups insuring 1 to 100 employee lives. As with Large Group, these may be fully insured and traditionally funded, or have an alternate funding arrangement.

Small Group contains the following product lines: Pooled Group, Pooled Group Alternate Funded, Rogers Benefit Group (RBG) Employers, Old Northwest Agents (ONA) Employers, RBG Medicare Supplement/Depositors, ONA Medicare Supplement/Depositors, Educational Service Plan (ESP), IASB, ABI, Retiree Medical, Single Premium and Group Term Permanent. RBG and ONA are small groups, generally insuring from 1 to 50 employee lives, while Pooled Group generally includes groups from 1 to 100 employee lives. The Medicare Supplement portion of RBG and ONA consists of individuals eligible for Medicare.

The Small Group product lines were managed as separate financial risk pools. Consistent with the management of the business, net profit percentages (NPPs) were developed separately for each summary coverage by state within each product line. These product line, state and summary coverage-specific NPPs for each calendar year were applied to the premium for each applicable summary coverage within a group.

1. Historical AC

The NPP method was used, as described above. Actual premium for each group was used in this calculation when available. This was generally from 1991 and later for all small groups. When actual historical premium for a small group was not available, historical trend assumptions were applied to the known premium for each group by coverage to estimate the unavailable premium.

2. Prospective AC

The process was generally the same as described above for Large Group. The NPPs by product line and summary coverages for the prospective period were typically based on an average of the NPPs by product line and summary coverages for 1997, 1998, and 1999. This average NPP was used to determine the prospective AC for calendar year 2000 for that summary coverage on every group in that product line.

For each group, for each coverage, recent average monthly premiums were used as the basis for projecting the future premiums. Trend assumptions were applied to this premium at each group's policy anniversaries. Lapse assumptions were applied to the projected premium each calendar year. The prospective premium by coverage by year for each group was summarized into summary coverages. The Prospective NPP for that product line and summary coverage was applied to determine the AC for that group and year. The AC amounts for each year were then discounted to the AC Date using the prospective discount rates to determine the total prospective AC for that group.

Premiums for individuals were projected to the end of the mortality table. In addition, for those coverages using an age-related premium structure, prospective premiums were modeled to increase by age. Terminations due to death were estimated, along with voluntary lapses.

D. GROUP UNIVERSAL LIFE (GUL)

The ACs for groups with GUL coverage not issued through the GUL Trust, certificates issued through the GUL Trust, and certificates that ported their coverage from groups not issued through the GUL Trust were determined in the same manner as described above for Small Groups. Premiums used in the NPP calculations were the cost of insurance amounts defined for each group or certificate. Three separate NPPs were developed each year: one for each of two particular large groups (and all certificates that ported from those groups) and one for every other group and certificates combined. The two large groups were managed separately from the remaining GUL groups and certificates. The premiums for these groups were based to some extent on the actual experience of the group.

The prospective ACs for certificates issued through the GUL Trust and certificates that ported their coverage from a group not issued through the GUL Trust were based on premiums

projected to the end of the mortality table. In addition, prospective premiums were modeled to increase by age for the coverages of these certificates that use an age-related premium structure. Terminations due to death were estimated for these certificates, along with voluntary lapses.

EXHIBIT 2.2

[ALLEN ALLEN & HEMSLEY LETTERHEAD]

SHARE SALE DEED

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BT INVESTMENTS (AUSTRALIA) LLC
BT FOREIGN INVESTMENT CORPORATION
BT NEW ZEALAND LIMITED
BT INTERNATIONAL (DELAWARE), INC.
BT NOMINEES (H.K.) LIMITED
DEUTSCHE BANK AG
BANKERS TRUST CORPORATION
PRINCIPAL FINANCIAL GROUP (AUSTRALIA) PTY LIMITED
PRINCIPAL FINANCIAL SERVICES, INC.

TABLE OF CONTENTS

1. DEFINITIONS AND INTERPRETATION 2
1.1 Definitions 2
1.2 Interpretation 12
1.3 Payments and currency 13

2. CONDITIONS PRECEDENT 14
2.1 Application of conditions precedent 14
2.2 Conditions precedent 14
2.3 Further conditions 15
2.4 Benefit of conditions 16
2.5 Satisfaction of conditions 16
2.6 Termination for failure to satisfy conditions precedent 17
2.7 Failure to satisfy further conditions 17
2.8 Offshore IB Businesses 17
2.9 Malaysian Securities Commission 17

3. GROUP CONDUCT BEFORE AND AFTER COMPLETION 18
3.1 General 18
3.2 Fiduciary and certain Investment Banking activities 20
3.3 Group Restructuring 20
3.4 Continuation of Infrastructure Support 20
3.5 Transitional arrangements 21
3.6 IB Linkages 21
3.7 Client Confidential Information 22

4. EMPLOYEE ARRANGEMENTS 22

5. SALE AND PURCHASE 24

6. COMPLETION 24
6.1 Place for Completion 24
6.2 Delivery of title documents 24
6.3 Delivery of general documents 25

6.4 Approval of transfers 27
6.5 Completion Date board meetings 27
6.6 Payment of Purchase Price, re-financing and Transaction Documents 27
6.7 Delay in satisfying conditions in Clause 2.3 28
6.8 OffShore FM Businesses 29
6.9 Post Completion loan balances 30
6.10 Parent Support Obligations 30
6.11 Custody arrangements 31
6.12 Deutsche Funds Management 31

7. NOTICE TO COMPLETE 31
7.1 Notice by the Purchaser 31
7.2 Notice by the Vendors 31

8. WARRANTIES, CLAIMS AND DISPUTES 32
8.1 Warranties and indemnity by the Warrantor 32
8.2 Warranties by the Purchaser and Purchaser's Guarantor 32
8.3 Effective dates 32
8.4 Disclosures 32
8.5 Construction 33
8.6 Limitation on Warrantor's and Vendors' liability 33
8.7 No reliance 36
8.8 Statutory actions 37
8.9 Indemnity 38
8.10 Dealing with Third Party Claim or Tax Claim after Completion Date 38
8.11 Tax Assessment 41
8.12 Procedure for making Claim 42
8.13 Expert 43
8.14 Alterations to Purchase Price or Adjusted Purchase Price 43
8.15 Notification of Warranty breach before Completion 44

9. ACCESS TO AND RETENTION OF RECORDS 44
9.1 Access 44
9.2 Retention 45

10. THE COMPLETION STATEMENT 45
10.1 Preparation of Completion Statement 45
10.2 Delivery of Completion Statement and Vendors' Accountants Report 45
10.3 Access to information 46
10.4 Review by Purchaser's Accountants 46
10.5 Basis of preparation of Completion Statement 46
10.6 Report by Purchaser's Accountants 46
10.7 Application of Clause 11.1 47
10.8 Resolution of disputes and application of Clause 11.2 47
10.9 Conclusiveness of report 48
10.10 Adjustment of Purchase Price 48
10.11 Costs 48

11. POST-COMPLETION ADJUSTMENT 48
11.1 If Completion Statement final 48
11.2 If the Accountants have disagreed 49
11.3 Interest on any adjustment amount 49

12. DROP DEAD DATE ADJUSTMENTS 49
12.1 Failure to complete 49

13. USE OF NAMES AND TRADE MARKS 50
13.1 Covenant not to use by Purchaser 50
13.2 Purchaser's use of BT Name 50
13.3 Covenant not to use by the Warrantor 51
13.4 Continuing use by Warrantor or Deutsche Group 52
13.5 Cancellation of registration 52
13.6 Acknowledgement by the Purchaser 52
13.7 Assignment or disposal of BT Name 53
13.8 Relinquish names 53
13.9 Distinctive Use 54
13.10 Protection of BT Name 54
13.11 Breach of covenant 55
13.12 Benefit of Purchaser covenants 55

14. YEAR 2000 ISSUE 55

15. INSURANCE 56

16. NOTICES 56

17. NON-DISCLOSURE 57
17.1 Confidentiality 57
17.2 Exceptions 57
17.3 Public announcements 58

18. THE VENDORS' GUARANTOR'S GUARANTEE 58
18.1 Undertaking 58
18.2 Principal obligation 58
18.3 No withholdings 58
18.4 No set off 59

19. DEFAULT INTEREST 59
19.1 Rate 59
19.2 Accruals 59

20. FURTHER ASSURANCES 59

21. ENTIRE AGREEMENT 59

22. AMENDMENT 60

23. ASSIGNMENT 60

24. NO WAIVER 60

25. WAIVER EFFECTIVE 60

26. SEVERANCE 60

27. NO MERGER 60

28. COUNTERPARTS 61

29. STAMP DUTY AND COSTS 61

30. GOVERNING LAW 61

31. THE PURCHASER'S GUARANTOR'S GUARANTEE 61
31.1 Undertaking 61
31.2 Principal obligation 61
31.3 No withholdings 62
31.4 No set off 62

32. SPECIAL INDEMNITY 62

SCHEDULES 1 - 14

DATE 17 June 1999

PARTIES

1. BT INVESTMENTS (AUSTRALIA) LLC c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America (BTLLC);

   BT FOREIGN INVESTMENT CORPORATION c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America (BTFIC);

   BT NEW ZEALAND LIMITED of Level 7, Price Waterhouse Centre, 66 Wyndham Street, Auckland, New Zealand (BTNZ);

   BT INTERNATIONAL (DELAWARE), INC. c/o U.S. Corporation Company 1013 Centre Road, Wilmington, Delaware 19805, United States of America (BTID); and

   BT NOMINEES (H.K.) LIMITED of 36th Floor, Two Pacific Place, 88 Queensway, Hong Kong (BTNHK),

   (each a VENDOR).

2. DEUTSCHE BANK AG (ARBN 064 165 162) of Level 28, 31 West 52nd Street, New York, New York 10005, United States of America (the WARRANTOR).

3. BANKERS TRUST CORPORATION of BT Plaza, 130 Liberty Street, New York, New York 10005, United States of America (the VENDORS' GUARANTOR).

4. PRINCIPAL FINANCIAL GROUP (AUSTRALIA) PTY LIMITED (ACN 087 480 313) of Level 17, 201 Miller Street, North Sydney 2060, Australia (the PURCHASER).

5. PRINCIPAL FINANCIAL SERVICES, INC. of 711 High Street, Des Moines, IA 50392-0300, United States of America (the PURCHASER'S GUARANTOR).

RECITALS

A Each Vendor is registered as the holder of the Sale Shares specified against its name in Part I of Schedule 1.

B Each Vendor wishes, or is authorised by the beneficial owner, to sell the Sale Shares held by it and the Purchaser wishes to purchase all of the Sale Shares on the terms and subject to the conditions of this Deed.

C The Vendors have requested the Warrantor to enter into this Deed for the benefit of the Purchaser and the Purchaser's Guarantor.

IT IS AGREED as follows.

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

The following definitions apply unless the context requires otherwise.

ACCOUNTING PRINCIPLES means the principles, policies and procedures used in the preparation of the Accounts and to be used in the preparation of the Completion Statement, as set out in Schedule 7.

ACCOUNTS means the special purpose aggregated pro-forma balance sheet of the Business prepared by the Vendors as at the Balance Date, a copy of which has been initialled for identification by the Purchaser's solicitor on behalf of the Purchaser and by the Vendors' solicitor on behalf of the Vendors.

ADVISER means, in respect of a party, a legal, accounting, taxation, financial or other expert adviser to that party and includes:

(a) where appropriate, the partners, Officers and employees of the adviser; and

(b) in the case of the Vendors, the Vendors' Guarantor and the Warrantor, any such adviser to a member of the Vendors' Group or of the Deutsche Group.

ADJUSTED PURCHASE PRICE means, in respect of any particular Sale Shares or Offshore FM Business, the Purchase Price of those Sale Shares or that Offshore FM Business, as adjusted in accordance with Clause 10.

AUTHORISATION includes:

(a) any authorisation, approval, consent, license, permit, franchise, permission, notification, filing, registration, lodgement, agreement, notarisation, certificate, authority, resolution, direction, declaration or exemption from, by or with a Public Authority; and

(b) in relation to anything which will be prohibited or restricted in whole or part by law if a Public Authority intervenes or acts in any way within a specified period after lodgement, filing, registration or notification, the expiry of such period without such intervention or action.

BT NAME means any name or mark that is or includes BT or anything substantially or deceptively identical with or similar to BT, but does not include BT Pyramid.

BTAL means Bankers Trust Australia Limited (ACN 003 017 221).

BTC means Bankers Trust Company of BT Plaza, 130 Liberty Street, New York, New York 10005, United States of America.

BTC PYRAMID AGREEMENT means the proposed agreement between BTC and BTPS under which BTPS agrees to provide administration services in respect of the funds known (at the date of this Deed) as the PT Pyramid Funds, a draft of which has been initialled for identification only by the Purchaser's solicitors on behalf of the Purchaser and the Vendors' solicitors on behalf of the Vendors.

BTCO means BTCO Australia Pty Limited (ACN 070 866 367).

BTCO AUSTRALIA AGREEMENT means the agreement between BTCO and BTPS under which BTPS agrees to provide administration services to BTCO, a draft of which has been initialled for identification only by the Purchaser's solicitors on behalf of the Purchaser and the Vendors' solicitors on behalf of the Vendors.

BTFMA means BT Funds Management Asia Limited.

BTFMIL means BT Funds Management (International) Limited (ACN 061 086 306).

BTFMS means BT Funds Management (Singapore) Limited.

BTI means Bankers Trust International Plc.

BTIA means BT Investments (Australia) Limited.

BTIA SHARES means all the shares in BTIA as described in column 3 of Part I of Schedule 1.

BTIB COMPANY means a company described in Part IIB of Schedule 2.

BTIB GROUP means:

(a) the BTIB Companies; and

(b) IB Businesses, whether conducted through a BTIB Company or another Group Member,

and in each case excluding any asset of any nature used in or relating to the FM Businesses.

BTPS means BT Portfolio Services Limited (ACN 064 567 040).

BALANCE DATE means 31 December 1998.

BUSINESS means the business or businesses of the Group Members and the Offshore FM Businesses, as carried on at the date of this Deed.

BUSINESS DAY means a day on which banks are open for business in Sydney and New York.

BUSINESS NAME ACT means the relevant Business Names Act of the jurisdiction specified against the Excluded Business Name in Schedule 11.

CLAIMS (except in Clause 32) means claims, demands, actions, proceedings, judgements, liabilities, losses, damages, costs and expenses (including reasonable legal costs and disbursements on a solicitor-client basis) whatever and in any way arising and, unless the context requires otherwise, includes a Tax Claim.

In Clause 32, CLAIMS means losses, damages, costs and expenses (including reasonable legal costs and disbursements on a solicitor-client basis) whatever and in any way arising and includes a Tax Claim.

CLIENT CONFIDENTIAL INFORMATION means Confidential Information as defined in the Confidentiality Deed dated 29 March 1999 between BTAL and Deutsche Bank AG (Sydney Branch).

CLOSELY-HELD SUBSIDIARY has the meaning given in section 243M of the Corporations Law.

COMPANY means a company specified in column 2 of Part I of Schedule 1.

COMPLETION means completion of the sale and purchase of the Sale Shares under this Deed.

COMPLETION DATE means the last day of the calendar month in which the Conditions Satisfaction Date occurs or, if either that last day is not a business day or the Conditions Satisfaction Date occurs on the last day of the calendar month, the next succeeding business day.

COMPLETION STATEMENT means the aggregated pro-forma balance sheet of the Group and the Offshore FM Businesses as at the Completion Date (or if the Completion Date is not the last day of a calendar month, the last day of the immediately preceding calendar month) in the form set out in Schedule 6 which shall clearly set out the assets and liabilities attributable to the FM Businesses and to the IB Businesses, based on the consistent application of the methodology applied in preparing the Accounts and in determining the assets and liabilities attributable to these two businesses as set out in the Accounts. The assets and liabilities of the FM Businesses as set out in the Completion Statement must be of a similar nature, quality and general composition as those in the pro forma balance sheet for the FM Businesses in the Accounts.

CONDITIONS SATISFACTION DATE means the date on which the last to be satisfied of the conditions precedent in Clause 2.2 is satisfied.

CONFIDENTIAL INFORMATION includes know-how, trade secrets, technical processes, information relating to products, finances, contractual arrangements with customers or suppliers and other information which by its nature, or by the circumstances of its disclosure to the holder of the information, is or could reasonably be expected to be regarded as confidential.

CONTRACT shall mean any written Investment Advisory Agreement entered into by any Group Member and any lease, license or other agreement relating to the use by any Group Member of any tangible or intangible property and

all rights and interests of any Group Member arising under or in connection with such agreement.

CORPORATE SERVICES means the corporate services group of the Group as described in the Information Memorandum.

DEED OF ASSIGNMENT OF TRADE MARKS means the deed so named which has been initialled for identification by the Purchaser's solicitor on behalf of the Purchaser and by the Vendors' solicitor on behalf of the Vendors.

DEUTSCHE GROUP means Deutsche Bank AG (ARBN 064 165 162), its Related Bodies Corporate and all of its Officers and Advisers.

DISCLOSURE LETTER means the letter dated 17 June 1999 and its annexures from BTAL to the Directors of the Purchaser and the Purchaser's Guarantor entitled Share Sale Deed - Disclosure Letter.

DISCLOSURE MATERIAL means:

(a) the material which was, at any time during the period 9 May 1999 to 28 May 1999, contained in the data room made available to the Purchaser the indices for which have been initialled for identification purposes only (and not to establish that the material was so contained in the data room) by the Purchaser's solicitor on behalf of the Purchaser and by the Vendors' solicitor on behalf of the Vendors; and

(b) the Disclosure Letter,

but does not include the IB Disclosure Material.

DROP DEAD DATE means 30 November 1999 or such other date agreed by the parties.

EMPLOYEE DISCLOSURE means the material disclosed in relation to the Employees as contained in the Disclosure Material.

EMPLOYEES means those persons who are, at any time between the date of this Deed and the Completion Date, employees of the Group or the Offshore FM Businesses.

ENCUMBRANCE means an interest or power:

(a) reserved in or over any interest in any asset including, without limitation, any retention of title; or

(b) created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power, by way of security for the payment of debt or any other monetary obligation or the performance of any other obligation and whether existing or agreed to be granted or created.

EXCLUDED BUSINESS NAME means each business name listed in Schedule 11.

EXCLUDED COMPANY means a Company, the sale of the shares of which does not proceed by reason of Clause 2.7 and which becomes the subject of adjustments under Clause 12, and any of its Closely-held Subsidiaries.

EXCLUDED NAME means any name that is or includes any of the following words or any word substantially or deceptively identical with or similar to those words:

(a) Bankers Trust;

(b) Alex. Brown;

(c) Wolfensohn; and

(d) Pyramid.

EXCLUDED SHARES means the Sale Shares in a Relevant Company to which Clause 6.7(d) applies.

EXCLUSION DATE means the date upon which an Excluded Company ceases to be the subject of a sale obligation by reason of Clause 2.7.

EXPERT means:

(a) an independent professional agreed by the Vendors and the Purchaser; or

(b) failing agreement by the Vendors and the Purchaser within 3 business days of the triggering of the expert referral provision, an eminent independent professional who shall have qualifications and expertise suitable to the dispute as determined and nominated by the President of the Institute of Chartered Accountants in Australia or his duly appointed delegate at the request of either the Vendors or the Purchaser.

FM BUSINESSES means the funds management, portfolio services and margin lending businesses of the Group as described in the Information Memorandum.

FRANKING ACCOUNT has the same meaning as in section 160APA of the 1936 Act, and where relevant includes the calculation of an exempting surplus or deficit at that particular time pursuant to proposed section 160AQCND.

FRANKING YEAR (has the same meaning as in section 160APA of the 1936 Act.).

GROUP means the Companies and the Subsidiaries.

GROUP MEMBER means any member of the Group.

GROUP RESTRUCTURING means the actions undertaken in connection with the restructuring of the Group as set out in Schedule 3.

HSR ACT means the Hart Scott-Rodino Antitrust Improvements Act of 1976 of the United States of America, as amended, and the rules and regulations. promulgated under it.

IB BUSINESS means the Business other than the FM Businesses and the Offshore IB Businesses.

IB DEED means the deed so named dated the date of this Deed between the Warrantor, the Purchaser, the Purchaser's Guarantor and BTAL (amongst others) regarding the IB Businesses.

IB DISCLOSURE MATERIAL means the material which was, at any time during the period from 9 May 1999 to 28 May 1999, contained in the data room made available to the Purchaser in the folders corresponding to the index number IB-1 to IB-48 inclusive and the material contained in the folders placed in the data room after 9 May 1999 up to and including 28 May 1999 to the extent that it related solely to the IB Businesses or the Offshore IB Businesses.

IB INDEMNITY means the indemnity given by the Warrantor set out in Clause 32.

INFORMATION MEMORANDUM means the information memorandum prepared by Goldman Sachs Australia L.L.C. and Deutsche Bank Australia dated April 1999 relating to the Business.

INFRASTRUCTURE SUPPORT means all infrastructure support provided to the Group and the Offshore FM Businesses at the date of this Deed and includes:

(a) office accommodation;

(b) access to computer networks and communication systems, including internet and website facilities and online services;

(c) the provision of computers, primers, facsimile machines, telephones and other office equipment;

(d) photocopying and mailroom services;

(e) "Help Desk" and other software, hardware, network and communication systems support and maintenance services;

(f) systems and software products (not including source codes);

(g) banking facilities; and

(h) payroll and associated services for employees.

INVESTMENT ADVISORY AGREEMENTS means all agreements and arrangements for the performance of investment advisory or investment management services with respect to securities, real estate, commodities, currencies or any other asset class for clients or on behalf of third parties (including unincorporated joint ventures).

MALAYSIAN AGREEMENT means the agreement dated 12 June 1997 between Commerce International Merchant Bankers Berhad (Company No. 18417-N), BTAL and the Malaysian Company.

MALAYSIAN COMPANY means Commerce BT Unit Trust Management (Berhad (Company No. 304078-K).

MAS means the Monetary Authority of Singapore.

MIA TRANSITION means Division 11 (where it second appears) of Part 11.2 of the Corporations Law.

NET ASSETS means the amount of the aggregated net assets of the Group and Offshore FM Businesses as at the Completion Date as disclosed in the Completion Statement or a report by the Expert delivered under Clause 10.8 (as the case may be).

OFFICER has the meaning given in section 82A of the Corporations Law.

OFFSHORE FM BUSINESSES means the following offshore funds management operations:

(a) the management of the BT International Investment Series of funds in Ireland, as performed by a subsidiary of the Vendors' Guarantor called BT Fund Managers (Ireland) Limited;

(b) the marketing and distributing of the BT International Investment Series of funds and the marketing of BTFMIL's institutional funds management capabilities, as performed in the United Kingdom by BTI;

(c) the services provided by BTC under the Alberta Contract (as defined in Clause 6.8(c)); and

(d) the management of US securities for the Common Fund Bond Portfolio (as described in Clause 6.8(d)).

OFFSHORE IB BUSINESSES means the following offshore investment banking operations presently carried on using local staff and staff seconded from BTAL in New York, Chicago, Sao Paulo, London, Paris, Hong Kong and Singapore:

(a) THE METALS AND MINING BUSINESS, which is carried on in New York and London by BTC and BTI in respect of precious and base metal OTC transactions. BT Bank of Canada is also used as a booking vehicle. The precious metal book is housed and hedged in BTC while the base metal books are housed and hedged in BTI;

(b) THE SOFT COMMODITIES BUSINESS, which is carried on in New York, Chicago and Sao Paolo by BTC and in London by BTI in respect of sugar only with these trades backed into BTAL;

(c) THE BTAL LONDON SYCOM TERMINAL, used to deal in Sydney Futures Exchange traded futures contracts on behalf of clients predominantly in the United Kingdom;

(d) THE DEBT MARKETS DESKS IN LONDON AND NEW YORK, which deal in Australian and New Zealand dollar denominated bonds and other debt securities in those jurisdictions. The London desk executes transactions in the name of BTI and backs these trades into BTAL. The New York desk executes transactions in the name of BT Alex. Brown, Inc. and backs these trades into BTAL;

(e) THE DEBT MARKETS DESK IN HONG KONG, which undertakes origination and dealer activities as part of debt issuance programs of

Australian and New Zealand issuers in the name of BT Asia Limited; and

(f) THE EQUITIES DESKS IN NEW YORK, SINGAPORE, LONDON AND PARIS, which deal in Australian equity securities for local customers in those jurisdictions.

PARENT SUPPORT OBLIGATIONS means the guarantees, indemnities and other support obligations listed in Schedule 14 and any other guarantees, indemnities and other support obligations given by any member of the Vendors' Group (other than the Officers and Advisers forming part of the Vendor's Group) to any party to better secure the performance of any obligations of any Group Member, but excluding any liability of the Vendors' Group under a Transaction Document or in respect of any of the IB Businesses or Offshore IB Businesses.

PRELIMINARY NET ASSETS means the amount of aggregated net assets of the Group and Offshore FM Businesses as at the Balance Date as disclosed in the Accounts.

PUBLIC AUTHORITY includes:

(a) any government in any jurisdiction, whether federal, state, territorial or local;

(b) any minister, department, office, Taxation Authority, commission, delegate, instrumentality, agency, board, authority or organisation of any government or in which any government is interested;

(c) any non-government regulatory authority; and

(d) any provider of public utility services, whether or not government owned or controlled.

PURCHASE PRICE means, in respect of any particular Sale Shares or Offshore FM Business, the consideration for the purchase of those Sale Shares or that Offshore FM Business as specified in column 4 of Part I of Schedule 1 or column 3 of Part II of Schedule 1, as the case may be.

PURCHASER ENTITIES means the Purchaser and any Related Body Corporate or child entity of the Purchaser (as that expression is defined in Part 2E.2 of the Corporations Law) from time to time (and, following the Completion Date, includes each Group Member).

PURCHASER'S ACCOUNTANTS means a firm of accountants nominated by the Purchaser.

PYRAMID DEVICE means the pyramid logo in all its forms as used by or registered as a trade mark by BTC or its Related Bodies Corporate on or before the date of this Deed.

REAL PROPERTY means the leasehold and freehold property listed in Schedule 12.

RECORDS means the original version, or a certified copy, of all books of account, accounts, records and data owned by or relating to any Group

Member, the Business or the property of any Group Member (whether in machine readable or printed form), including any source material used to prepare any of the records described above.

RELATED BODY CORPORATE means, in relation to a body corporate, a body corporate which is related to it within the meaning of section 50 of the Corporations Law.

RELEVANT COMPANY, RELEVANT DATE and RELEVANT SHARES each have the meanings provided by Clause 6.7.

RELIEF means any loss, relief, allowance, exemption or exclusion, set-off, deduction, rebate, right to repayment or credit or other relief of a similar nature granted by or available in relation to Tax, pursuant to any legislation.

REPORTED EXCESS and REPORTED SHORTFALL have the meanings provided by clause 10.2(b).

RULING REQUESTS means applications lodged on behalf of any Group Member nominated by the Vendors or the Warrantor, for a private ruling under Part IVAA of the Taxation Administration Act 1953 (Cth):

(a) that neither Part IVA of the Tax Act nor any other relevant tax avoidance provisions in the Tax Act have any application to the transaction effected under this Deed; and

(b) in relation to any other matter identified by the Vendors or the Warrantor and approved by the Purchaser (such approval not to be unreasonably withheld).

SALE SHARES means the shares specified in Part I of Schedule 1 and when used in respect of a particular Vendor means the Sale Shares specified against its name in Part I of Schedule 1.

SFC means the Hong Kong Securities and Futures Commission.

SHARED SERVICES AGREEMENTS means the agreements by which certain members of the Vendors' Group and certain of the Companies agree that one will provide information technology services and facilities to the other for a transition period of no more than 18 months from the Completion Date, to be entered into on or before the Completion Date in a form approved in writing by the Purchaser.

SPECIFIC EMPLOYEE DISCLOSURES means Annexures B, C, D and E of the Disclosure Letter.

STATUTORY ACCOUNTS means the annual audited financial statements of BTAL and its controlled entities prepared as at the Balance Date.

STEWARDSHIP COMMITTEE means the "Co-ordination Group" established for the purposes of overseeing the operations of the Business from 4 June 1999 to the Completion Date.

STEWARDSHIP DOCUMENT means the document called Deutsche Bank Australia/ Bankers Trust Australia Limited Management Post COC, a copy of which has been initialled for identification by the Purchaser's solicitor on

behalf of the Purchaser and by the Vendors' solicitor on behalf of the Vendors.

SUBSIDIARIES means the subsidiaries of the Companies as described in Part IIA of Schedule 2.

SYSTEM means any computer software and computer hardware howsoever used and any embedded system or device used to control, monitor or assist the operation of equipment, machinery or plant and includes any data to be. used by any of the foregoing.

TAX includes any tax, impost, deduction, charge, rate, duty, compulsory loan or withholding which is collected or administered by a Taxation Authority pursuant to a law of any jurisdiction in the nature of a tax on income or profits (including capital gains), and any related interest, penalty, additional tax, charge, fee or other amount and also includes (Without limitation) any withholding taxes, prepayments or advance payments with respect to such taxes. TAX also includes customs duty, excise duty, sales tax, value added or goods and services tax, franking additional tax, fringe benefits tax, payroll tax, stamp duty, taxes in respect of superannuation or pensions, other social security taxes and any corresponding or similar taxes in any jurisdiction and any related interest, penalty, additional tax, charge, fee or other amount.

TAX ACT means the 1936 Act and the 1997 Act.

TAX CLAIM means any claim, assessment, notice, determination, demand or other document issued or action taken by or on behalf of any Taxation Authority whereby any Group Member either is liable or is sought to be made liable to make any Tax payment or is denied or sought to be denied any Relief and includes any Claim arising from the lodgment of a Ruling Request.

TAX PROVISION means the aggregate amount of the provisions in relation to Tax in the Completion Statement.

TAX WARRANTIES means the warranties set out in Part II of Schedule 4.

TAX YEAR means the annual period, or in respect of the period including the Completion Date the shorter period allowed by a Taxation Authority, in respect of which a Tax liability may arise.

TAXATION AUTHORITY means any governmental authority or instrumentality responsible for the collection or administration of Tax.

TOTAL ADJUSTED PURCHASE PRICE means the Total Purchase Price as adjusted in accordance with Clause 10.

TOTAL PURCHASE PRICE means the total Purchase Price for all of the Sale Shares and the Offshore FM Businesses, being the amounts specified in Schedule 1.

TRADE MARKS has the meaning given in the Deed of Assignment of Trade Marks.

TRANSACTION DOCUMENTS means this Deed, the IB Deed, the Deed of Assignment of Trade Marks, the Shared Services Agreements, the BTCO Australia Agreement and the BTC Pyramid Agreement.

TRANSITION DATE means the date which is six months after the Completion Date.

VENDORS' ACCOUNTANTS means KPMG of 45 Clarence Street, Sydney, NSW, 2000.

VENDORS' ACCOUNTANT'S REPORT means the report by the Vendors' Accountants to be delivered under Clause 10.2.

VENDORS' GROUP means the Vendors, their Related Bodies Corporate (excluding Group Members) and all of their Officers and Advisers from time to time.

WARRANTIES means:

(a) the warranties and representations by the Warrantor set out in Parts I and II of Schedule 4 of this Deed; and

(b) any other conditions, warranties or representations which cannot be excluded under statute or the general law by or against the Vendors or the Warrantor in connection with the transactions contemplated by the Transaction Documents.

YEAR 2000 ISSUES means any failure of a System to comply with the requirements set out in the Australian Standards SAA/SNZ MP77:1998A Definition of Year 2000 Conformity Requirements, such requirements being that neither performance nor functionality is affected by dates prior to, during or after the year 2000. In particular:

Rule 1: No value for current date will cause any interruption in operation.

Rule 2: Date-based functionality must behave consistently for dates prior to, during and after year 2000.

Rule 3: In all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules.

Rule 4: Year 2000 must be recognised as a leap year in terms of handling both 29 February and day 366.

1936 ACT means the Income Tax Assessment Act 1936 (Cth).

1997 ACT means the Income Tax Assessment Act 1997 (Cth).

1.2 INTERPRETATION

HEADINGS are for convenience only and do not affect interpretation. The following rules of interpretation apply unless the context requires otherwise.

(a) The SINGULAR includes the plural and conversely.

(b) A GENDER includes all genders.

(c) Where a WORD or PHRASE is defined, its other grammatical forms have a corresponding meaning.

(d) A reference to a PERSON includes a body corporate, an unincorporated body or other entity and conversely.

(e) A reference to a CLAUSE or SCHEDULE is to a clause of or schedule to this Deed.

(f) A reference to a PARAGRAPH is to a paragraph in the Clause in which the reference appears.

(g) A reference to any PARTY to this Deed or any other agreement or document includes the party's successors and permitted assigns.

(h) A reference to any AGREEMENT or DOCUMENT is to that agreement or document as amended, novated, supplemented, varied or replaced from time to time, except to the extent prohibited by this Deed or that other agreement or document.

(i) A reference to any LEGISLATION or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it, and all regulations and statutory instruments issued under it.

(j) A reference to $ is to Australian currency unless otherwise specified.

(k) Each Schedule and exhibit and each certificate and document delivered under this Deed forms part of this Deed.

(l) A reference to CONDUCT includes any omission, representation, statement or undertaking, whether or not in writing.

(m) Mentioning anything after INCLUDE, INCLUDES or INCLUDING does not limit what else might be included.

(n) Any statement made by a party on the basis of its KNOWLEDGE, BELIEF OR AWARENESS, is made on the basis that the party has, in order to establish that the statement is true and not misleading in any material respect, made all reasonable enquiries of the officers, managers, employees and other persons who could reasonably be expected to have information relevant to the matters to which the statement relates and that, as a result of those enquiries, the party has no reason to doubt that the statement is true and not misleading in any material respect.

(o) In the interpretation of this Deed, no rules of construction are to apply to the disadvantage of one party on the basis that the party put forward this Deed or any part of it,

1.3 PAYMENTS AND CURRENCY

(a) (GENERAL) Subject to paragraph (c), where this Deed specifies a currency in which a payment must be made, the payment must be

made in that currency and the person obliged to make the payment will bear any exchange rate risk. Where no currency is specified then, unless the relevant parties agree otherwise, the payment must be made in Australian dollars.

(b) (COMPLETION STATEMENT AND TAX PROVISION) Notwithstanding the fact that the amounts in the Completion Statement are shown in Australian currency, the adequacy of a provision, reserve, accrual or allowance or, in the case of an asset (such as Relief in the form of a right to repayment), the value of that asset in respect of a Group Member, whether in the Completion Statement or in the Tax Provision itself, is to be measured by reference to:

(i) in the case of the Completion Statement, any local currency amount which has been converted into Australian currency for the purposes of the Completion Statement (and not the corresponding amount of Australian currency); and

(ii) in the case of the Tax Provision, any local currency amount in which the relevant liability to Tax or Relief arises, using the same conversion rate as is used in the Completion Statement (and not the corresponding amount of Australian currency),

so that the Vendors shall not incur any liability nor obtain any benefit under this Deed merely because of a movement in the relevant exchange rate after the Completion Date.

(c) (TOTAL PURCHASE PRICE) Notwithstanding any other provision of this Deed, the Total Purchase Price shall be Payable in US Dollars calculated at the exchange rate of AUD1 = USD0.658 and the adjustments to the Purchase Price and the Total Purchase Price (if any) payable under any Transaction Document shall be in AUD.

2. CONDITIONS PRECEDENT

2.1 APPLICATION OF CONDITIONS PRECEDENT

Clause 2.2 applies in its entirety to the sale and purchase of the Sale Shares and Clauses 5 and 6 do not bind the parties unless and until each of the conditions in Clause 2.2 is satisfied in respect of such sale or waived by the Vendors and the Purchaser.

2.2 CONDITIONS PRECEDENT

The conditions precedent to which Clauses 5 and 6 of this Deed are subject, in the manner specified in Clause 2.1, are as follows:

(a) (FOREIGN INVESTMENT APPROVAL) The Purchaser files a notice under section 25 of the Foreign Acquisitions and Takeovers Act and any of the following occurs:

(i) (NOTICE OF NO OBJECTION) The Purchaser receives a notice from the Australian Treasurer to the effect that there is no objection to the acquisition of the BTIA Shares under the Commonwealth Government's foreign investment policy. The notice must be either unconditional or impose conditions which are not materially prejudicial to the interests of the Purchaser,

(ii) (EXPIRATION OF WAITING PERIOD) The period provided under the Foreign Acquisitions and Takeovers Act, during which the Treasurer may make an order under section 18 or an interim order under section 22 in relation to the acquisition of the BTIA Shares, elapses without such an order being made.

(iii) (EXPIRATION OF INTERIM ORDER) If an interim order under section 22 is made, the subsequent period for making a final order prohibiting the acquisition of the BTIA Shares elapses without a final order being made.

(b) (FINANCIAL SECTOR (SHAREHOLDINGS) ACT APPROVAL) The Purchaser files an application to acquire a 100% stake in BTAL, Bankers Trust Life Limited and BT Australia Limited under section 13(l)13(l) of the Financial Sector (Shareholdings) Act 1998 (the FSSA) and receives a notice from the Australian Treasurer approving the application under the FSSA. The notice must be either unconditional or impose conditions which are not materially prejudicial to the interests of the Purchaser.

(c) (HSR ACT) The Purchaser's Guarantor and the Purchaser on the one hand and the Warrantor and the Vendors' Guarantor on the other hand file notifications pursuant to the HSR Act and the applicable waiting period and any extensions thereof expire or terminate.

(d) (INSURANCE REGULATIONS) The Purchaser's Guarantor and the Purchaser seek and obtain necessary approvals from the insurance regulatory authorities in the State of Iowa and the State of New York as may be required for the Purchaser to complete the transactions contemplated by the Transaction Documents, where such approvals are either unconditional or impose conditions which are not materially prejudicial to the interests of the Purchaser's Guarantor or the Purchaser, and such approvals have not expired or been rescinded before the Completion Date.

2.3 FURTHER CONDITIONS

Completion of the sale and purchase of:

(a) (OIR APPROVAL) the shares in BT Funds Management (NZ) Limited, BT New Zealand Nominees Limited and BT Portfolio Services (NZ) Limited is conditional upon the Purchaser receiving in writing any consent necessary under the Overseas Investment Regulations 1995 of New Zealand for the implementation of this Deed.

(b) (HONG KONG SFC) the shares in BTFMA is conditional upon approval from the SFC to the Purchaser or its nominee becoming a substantial shareholder (as defined in the Securities and Futures Commission Ordinance (Cap.24 in the laws of Hong Kong)) in BTFMA.

(c) (SINGAPORE MAS) the shares in BTFMS is conditional upon approval from the MAS to the Purchaser or its nominee acquiring the entire issued share capital of BTFMS.

The consent, clearance or authorisation (as the case may be) and approvals referred to above must be either unconditional or impose conditions which are not materially prejudicial to the interests of the Purchaser.

2.4 BENEFIT OF CONDITIONS

Each of the conditions in Clauses 2.2 and 2.3 are for the benefit of the Vendors and the Purchaser and may only be waived if they all agree to do so.

2.5 SATISFACTION OF CONDITIONS

The Purchaser shall file all necessary notices or applications in relation to, and the Vendors and the Purchaser shall use all reasonable endeavours to ensure the satisfaction of, each of the conditions in Clauses 2.2 and 2.3, as soon as practicable. Without limiting the generality of the foregoing:

(a) the Purchaser will promptly inform the Vendors if any condition has been imposed in respect of any matter referred to in Clause 2.2 or 2.3 and whether that condition is considered materially prejudicial to the Purchaser's interests;

(b) the Purchaser shall in respect of any application for approval referred to in Clause 2.2 or 2.3 (unless the Vendors waive such right of consultation or disclosure, as applicable):

(i) consult with the Vendors as to the content of any such application or other material correspondence in relation to such application; and

(ii) provide a copy of all or part of any such application in the usual manner (deleting such matters as are confidential or commercially sensitive for the Purchaser, in its discretion) before lodgement of any such application or, in respect of the applications under Clause 2.2(d), as soon as reasonably practicable after the date of this Deed; and

(c) the Vendors shall provide such information as may reasonably be requested by the Purchaser in connection with any such application for approval.

The Purchaser shall at all times keep the Vendors informed of progress in satisfying the conditions listed in Clauses 2.2 and 2.3 and of any material developments in relation thereto and shall, on the satisfaction of each condition, immediately notify the Vendors in writing of that fact.

2.6 TERMINATION FOR FAILURE TO SATISFY CONDITIONS PRECEDENT

This Deed will automatically terminate on the close of business on the Drop Dead Date if, any of the conditions precedent in Clause 2.2 is not satisfied or waived by the Vendors and the Purchaser by that time. Any termination shall be without prejudice to any right any party may have against another party or parties if it or they did not use reasonable endeavours as required in Clause 2.5 or for breach of Clause 17 but otherwise no party shall have any liability by reason of the termination.

2.7 FAILURE TO SATISFY FURTHER CONDITIONS

The failure to satisfy any of the conditions in Clause 2.3 shall not entitle any party to terminate this Deed. If any condition in Clause 2.3 is not satisfied or waived by the Vendors and the Purchaser by the Drop Dead Date, then the sale and purchase of the Sale Shares in the relevant Company affected by that failure shall not proceed as contemplated in Clause 6.7(d). Any failure to proceed shall be without prejudice to any right any party may have against another party or parties if it or they did not use reasonable endeavours as required in Clause 2.5, but otherwise no party shall have any liability by reason of that sale and purchase not proceeding (other than in relation to the adjustment of the Purchase Price as provided for in Clause 12.1 (b)).

2.8 OFFSHORE IB BUSINESSES

The Purchaser acknowledges that the Offshore IB Businesses are not the subject of sale pursuant to this Deed and may be retained or sold by the relevant member(s) of the Vendors' Group as they see fit.

2.9 MALAYSIAN SECURITIES COMMISSION

The Purchaser must apply promptly after the date of this Deed for the written approval of the Malaysian Securities Commission for the indirect change in control of a shareholder in Commerce Asset Fund Managers Sdn Bhd that will arise on Completion of the sale and purchase of the BTIA Shares. If such approval is not obtained by the Completion Date, the shareholding interest in that company held by BTAL will be transferred, subject to the rights of pre-emption, if any, triggered as a result of such proposed transfer, on the Completion Date to a member of the Deutsche Group nominated by the Vendors' Guarantor at its book value and, in any case, Completion of the sale and purchase of the BTIA Shares will proceed. Notwithstanding the previous sentence, the Purchaser shall continue to comply with Clause 2.5 in respect of the relevant application and, if such approval is received on or before the Drop Dead Date unconditionally or on terms which are not materially prejudicial to the interests of the Purchaser and if the transfer to the member of the Deutsche Group is effected without the exercise of the rights of pre-emption and if the rights of pre-emption triggered by the following proposed transfer to the Purchaser under this Clause 2.5 are not exercised, the Purchaser shall acquire such shareholding interest from the then current holder for the same book value within 3

business days of receipt of such approval or such later time, if so required in order to comply with the rights of pre-emption provisions.

3. GROUP CONDUCT BEFORE AND AFTER COMPLETION

3.1 GENERAL

(a) Other than any action or transaction expressly contemplated by this Deed or by any other Transaction Document, the Vendors shall:

(i) ensure that the Group continues to carry on the Business in the ordinary and usual course (but subject to the terms of the Stewardship Document);

(ii) use reasonable endeavours to preserve the Group's present business organisation and relationships;

(iii) use reasonable endeavours to preserve the Group's rights, goodwill, reputation and relations with its customers and others with whom the Group Members conduct business; and

(iv) ensure that any and all insurance contracts which cover Group Members as at the date of this Deed are maintained until the Completion Date.

For the purposes of this Deed ORDINARY AND USUAL COURSE OF BUSINESS and similar phrases includes taking any action to ensure or facilitate compliance with any new regulatory or legislative requirements (including, for example, MIA Transition).

(b) Without limiting the generality of paragraph (a) above and except as contemplated by this Deed or any other Transaction Document, the Vendors shall ensure that, subject to Clause 3.2, no Group Member does, or agrees to do, any of the following things during the period from the date of this Deed to the Completion Date (inclusive) without the prior written consent of the Purchaser.

(i) (NO BUSINESS ACQUISITIONS) Acquire any assets the consideration for which is in excess of $2,000,000.

(ii) (NO DISPOSALS) Dispose of or create any Encumbrance, over any asset of a value, individually or in the aggregate, in excess of $2,000,000.

(iii) (NO FINANCIAL INDEBTEDNESS) Incur any financial indebtedness or obtain any financial accommodation or give any guarantee or indemnity in excess of $2,000,000 or any series of similar commitments which would involve liability in excess of $2,000,000 in total.

(iv) (NO MATERIAL COMMITMENTS) Enter into any other commitment which will involve expenditure by the Group Member in excess of $2,000,000 or any series of similar

commitments which would involve expenditure by the Group Member in excess of $2,000,000 in total.

(v) (NO NEW ISSUES) Allot or issue any share capital or any securities or other rights which are convertible into share capital of any Group Member.

(vi) (NO DISTRIBUTIONS) Declare or pay any dividend, make any other distribution of its profits, reserves or assets, reduce its capital, repay any shareholder's loan or advance or buy back any of its shares.

(vii) (NO ALTERATIONS TO CONSTITUENT DOCUMENTS) Make any alterations to its constitution.

(viii) (EMPLOYMENT CONDITIONS) Vary, whether orally or in writing, the terms of employment, including severance, redundancy or change in control entitlements, of any Employees.

(ix) (NO AFFILIATE TRANSACTIONS) Enter into any transaction with BTC or any other member of the Deutsche Group (but not including Group Members) involving payments in excess of $500,000 in the aggregate.

(x) (MOVEMENT OF EMPLOYEES TO FM) Move or re-allocate any Employees from the IB Businesses or Corporate Services to the FM Businesses.

(xi) (NO HIRE) Hire any employee with an annual total compensation (excluding discretionary bonuses) in excess of $100,000.

(xii) (NO COMPENSATION INCREASES) Increase or commit to increase the compensation, including any commission, bonus, retention payments or other direct or indirect remuneration, paid or payable to any Employee (other than normal compensation increases made in the ordinary course of business consistent with prior practice).

(xiii) (NO CAPITAL EXPENDITURES) Make any capital expenditures in excess, in aggregate, of $1,000,000.

(xiv) (NO ALTERATIONS TO ACCOUNTING PRINCIPLES) Amend, modify or supplement in any respect the Accounting Principles.

(xv) (NO ALTERATIONS TO CONTRACTS) Create, renew, amend, terminate or cancel, or take any other action that may result in the creation, renewal, amendment, termination or cancellation of, any Contract except in the ordinary course of business.

(xvi) (NO TERMINATIONS) Terminate the employment of any Employee of the Business at the Senior Vice President level or above.

(xvii) (NO NEW LINE OF BUSINESS) Enter into any new line of business.

(xviii) (NO CORPORATE RESTRUCTURING) Effect any restructuring relating to or affecting the Group other than the Group Restructuring.

3.2 FIDUCIARY AND CERTAIN INVESTMENT BANKING ACTIVITIES

Nothing in Clause 3.1 restricts, or requires the Purchaser's consent to, any action which may be undertaken by a Group Member:

(a) as manager, trustee or custodian of a collective investment scheme or in any other fiduciary capacity;

(b) in the ordinary and usual course of carrying out the investment banking business of the Group's Sales and Trading Division, Finance Division or Equities Division; or

(c) in the performance of any rights or obligations under any Transaction Document.

Any transaction not capable of being undertaken without alteration of the management or credit approval limits applicable as at the date of this Deed would not be entered into in the ordinary and usual course of business.

3.3 GROUP RESTRUCTURING

The Purchaser acknowledges and consents to the implementation of the Group Restructuring and the Vendors undertake to complete the Group Restructuring before the Completion Date except in respect of the payment of dividends declared on or before the Completion Date which dividends the parties shall procure will be paid on the dates determined in accordance with Schedule 3.

3.4 CONTINUATION OF INFRASTRUCTURE SUPPORT

(a) (SERVICES TO CONTINUE) The Warrantor must ensure that all Infrastructure Support provided to the FM Businesses by the BTIB Group or by a member of the Vendor's Group as at the date of this Deed, continues to be provided to the FM Businesses, on no less favourable terms, for such transition period after the Completion Date as the Purchaser reasonably requires (but not exceeding 6 months) to replace those services without any material adverse effect on the FM Businesses.

(b) (SHARED SERVICES) The Warrantor and the Purchaser must use all reasonable endeavours to procure that the relevant companies enter into the Shared Services Agreements at or prior to the Completion Date in respect of the services to be provided by members of the Vendors' Group to certain of the Group Members and by certain Group Members to members of the Vendors' Group, together with

any other services required to be provided under paragraph (a) or otherwise agreed by the parties.

(c) (PURCHASER'S ROLE) Subject to the arrangements made under paragraphs (a) and (b), the Purchaser shall be responsible for providing Infrastructure Support to the Group and the Offshore FM Businesses from the Completion Date and shall use all reasonable endeavours to ensure that it is in a position to do so. This obligation shall only apply in respect of IB Businesses if and for so long as the Purchaser owns them.

(d) (CO-OPERATION) Subject to the arrangements made under paragraphs (a) and (b), the Vendors and the Purchaser shall cooperate and do all things reasonably necessary to achieve an orderly handover from the Vendors' Group to the Purchaser of the responsibility for providing Infrastructure Support to the Group and the Offshore FM Businesses. This obligation shall only apply in respect of IB Businesses if and for so long as the Purchaser owns them.

3.5 TRANSITIONAL ARRANGEMENTS

On and from the date of this Deed to the Completion Date the following arrangements shall apply to assist in ensuring a smooth and efficient transfer of the Business:

(a) the Vendors shall ensure that the Purchaser Entities and their Officers and Advisers are given reasonable access during normal business hours to inspect the assets, properties, books of accounts, records and documents of the Business;

(b) the Purchaser Entities and their Officers and Advisers shall keep confidential any confidential information so obtained;

(c the Vendors' Group and the Purchaser Entities shall ensure that they provide such reasonable assistance as requested by the other party for the purposes of Clause 3.4 and the Shared Services Agreements;

(d) the Vendors' Group shall ensure that the Purchaser has reasonable access to all Employees and clients of the Business;

(e) the Vendors shall provide the Purchaser with an office in the Group's Chifley Tower premises for the purpose of monitoring and implementing the transitional arrangements under Clause 3.4 to Clause 3.6. The office will be of a size and with access to facilities necessary for this purpose; and

(f) the Warrantor shall ensure that the Stewardship Committee consists of representatives of the Purchaser in a number equal to the number of representatives of the Warrantor.

3.6 IB LINKAGES

As soon as practicable after the date of this Deed, the Warrantor shall procure that the Purchaser is provided with sufficient information to enable

the Purchaser to determine the Employees and services that are, as at the date of this Deed, provided to or shared with the FM Businesses by the BTIB Group or Corporate Services (respectively, SHARED EMPLOYEES and SHARED SERVICES). Within 10 business days of receipt of such information, the Purchaser must notify the Warrantor of the Shared Employees and Shared Services it requires for the purposes of running the FM Businesses with effect from the Completion Date and:

(a) any Shared Services notified by the Purchaser will form part of the FM Businesses for all purposes;

(b) any Shared Employees notified by the Purchaser will form part of the FM Businesses for all purposes; and

(c) any Shared Services and Shared Employees not notified by the Purchaser will remain or form part of the BTIB Group.

3.7 CLIENT CONFIDENTIAL INFORMATION

The Warrantor shall ensure that, from the date of this Deed to the Completion Date, none of the members of the Deutsche Group or any of their respective employees use any Client Confidential Information to develop, market, offer for sale or sell any of its fund management products (other than, until the Completion Date, the products of the FM Business) to any person.

4. EMPLOYEE ARRANGEMENTS

(a) (RETENTION ARRANGEMENTS) The Purchaser shall be responsible to make whatever arrangements it may consider necessary or desirable with effect on and from the Completion Date to secure from such time the continuing services of any Employees.

(b) (VENDORS' ROLE) The Vendors have no obligation to use any endeavours to retain any Employees in employment or to make any arrangements to seek to ensure that their employment or services continue before or after the Completion Date. The Purchaser shall not be entitled to make any Claim before or after the Completion Date against any member of the Vendors' Group nor shall any right of rescission or termination of any Transaction Document arise by reason of any person ceasing at any time to be an Employee.

(c) (REDUNDANCY INDEMNITY FROM THE PURCHASER) The Purchaser shall indemnify the Vendors and the Warrantor for any loss suffered or incurred by any of them (including as a result of any reduction made in calculating the Net Assets to reflect a payment made by a Group Member before the Completion Date) as a result of:

(i) any Employee being made redundant after the date of this Deed but before the Completion Date at the written request of the Purchaser; or

(ii) any Claim made against the Vendors or the Warrantor by any Employee where a provision has been in made in the Completion Statement in accordance with section 3.3 of the Accounting Principles but only to the extent of that provision.

(d) (COC PLANS AND REDUNDANCY POLICIES) The Purchaser represents and warrants that it is aware of the terms of the plans called the Bankers Trust New York Corporation Change in Control Severance Plan I and Bankers Trust New York Corporation Change in Control Severance Plan II (each a PLAN and, together, the PLANS) and the policies known as the BTAL Redundancy Policy for Professional Employees and BTAL Redunduncy Policy for Fortnightly Employees (each a POLICY and, together the POLICIES) copies of which were included in the Disclosure Material.

(e) (COC PAYMENTS) The Vendors shall ensure that all amounts to which Employees become entitled as a direct result of the merger between BTC and Circle Acquisition Corporation will be paid to those Employees on or before the Completion Date. This obligation does not relate to amounts payable pursuant to the Plans or Policies.

(f) (OBLIGATIONS TO EMPLOYEES) The Purchaser shall (or shall procure one of its Related Bodies Corporate to) with effect from the Completion Date and until 4 June 2001:

(i) provide similar plans to the Plans or similar benefits as provided under the Plans, to the extent referred to in clause 10 of those Plans; and

(ii) provide or continue to provide all Employees who are employed by the Group or the Offshore FM Businesses at the Completion Date with Comparable Employment (as defined in clause 10 of the Plan in which they participate) or pay to any Employee who is not provided with Comparable Employment (or who is made Redundant (as defined in clause 2.8 of the Policies)) their full entitlements under the Plan and/or Policy in which the Employee is a participant.

(g) (INDEMNITY FROM THE PURCHASER) The Purchaser shall indemnify the Vendors' Group against any Claim arising from the Purchaser's failure to fulfil its obligations under paragraph (f). Any of the Vendors may enforce this indemnity in its own name and/or on behalf of any other member of the Vendors' Group.

(h) (NO POACHING) For a period of 12 months from the date of execution of this Deed:

(i) the Warrantor will ensure that none of the Deutsche Group shall solicit or endeavour to entice away, employ or offer to employ any Employee; and

(ii) the Purchaser shall not, and shall ensure that its Related Bodies Corporate do not, entice away, employ or offer to employ any person who, as at the Completion Date, is an

employee of BTC and its Closely-held Subsidiaries in the United States of America or Japan who conduct funds management activities.

(i) (NO POACHING CARVE-OUT) Paragraph (h) does not prohibit any members of Deutsche Group or the Purchaser and its Related Bodies Corporate (as applicable) from employing or seeking to employ any such employee:

(i) who seeks employment with one of those entities on his or her own initiative; or

(ii) who responds to a bona fide public advertisement for a vacant position with one of those entities provided that the advertisement is not targeted specifically at the employee concerned,

in each case without any direct or indirect solicitation by or on behalf of any member of the Deutsche Group or the Purchaser and its Related Bodies Corporate, as the case may be. If paragraph (i) or (ii) apply, the new employer must provide the other parties with information to establish the application of paragraph (i) or (ii) on request.

(j) (NO POACHING CARVE-OUT FOR BTIB EMPLOYEES) Paragraph (h) does not prohibit any members of the Deutsche Group from employing or seeking to employ any BTIB Employee (as defined in the IB Deed).

5. SALE AND PURCHASE

On Completion:

(a) each Vendor will sell those of the Sale Shares of which it is holder (as specified against that Vendor's name in Schedule 1) for the Purchase Price of those shares; and

(b) the Purchaser will purchase those Sale Shares for that Purchase Price free and clear of all Encumbrances.

6. COMPLETION

6.1 PLACE FOR COMPLETION

Subject to Clause 6.7, Completion will take place at the offices of Sullivan & Cromwell in New York, New York before 3 pm on the Completion Date.

6.2 DELIVERY OF TITLE DOCUMENTS

Subject to Clause 6.7, the Vendors shall ensure that the following documents are delivered to the Purchaser on or before the Completion Date:

(a) (SHARE CERTIFICATES) The share certificates (if any) in respect of the Sale Shares.

(b) (TRANSFERS) Transfers in registrable form (subject only to payment of stamp duty, if applicable) in favour of the Purchaser or the Purchaser's nominee (being a nominee that is a Closely-held Subsidiary of the Purchaser's Guarantor), duly executed by each registered holder as transferor of the Sale Shares and, in the case of BTFMS, together with such other documents as may be required for submission to the Commissioner of Stamp Duties for the purpose of stamping the transfers of the Sale Shares. The Purchaser's Guarantor enters into this Deed in its own right and as trustee for any nominee pursuant to this Clause to the intent that any such nominee may enforce this Deed to the same extent as if it had executed this Deed as the Purchaser.

(c) (POWERS OF ATTORNEY) A power of attorney in the form set out in Schedule 5 granted by each registered holder of the Sale Shares.

(d) (SOLD NOTES FOR BTFMA) One sold note executed by BTID in respect of 349,999 common shares in BTFMA and one sold note executed by BTNHK in respect of 1 common share in BTFMA.

6.3 DELIVERY OF GENERAL DOCUMENTS

Subject to Clause 6.7, on the Completion Date, the Vendors shall deliver the following documents to the Purchaser:

(a) (RECORDS) For each Group Member, the register of members, register of charges, minute books, ledgers, journals and books of account, the certificate of registration (or equivalent document), the common seal (if any), share certificate books, and all records and documents relating to the business and property of the Group Member.

(b) (DISCLOSURE MATERIAL) The Disclosure Material.

(c) (RESIGNATIONS) The written resignation of each director and any secretary (if any) of each Group Member who is so nominated by the Purchaser or the Vendors at least 5 days prior to the Completion Date with effect from Completion, subject to the requirement in respect of BTFMA to maintain at all times one dealing director as approved by the SFC, in respect of BTFMS to maintain a director who is resident in Singapore and a managing director approved by the MAS and, in respect of any other Group Member, any other legal or regulatory requirements concerning the composition of the relevant board of directors.

(d) (TRANSACTION DOCUMENTS) The Transaction Documents (other than the IB Deed) as executed by the relevant member of the Vendors' Group.

(e) (INTRAGROUP AGREEMENTS) Documents (signed by each of the parties to the agreements respectively listed in Schedule 8) cancelling such of those agreements as nominated by the Warrantor. The Purchaser acknowledges that some or all of these agreements may be cancelled before such time if so determined by the Warrantor,

(f) (INTER-COMPANY AGREEMENTS) Written evidence to the reasonable satisfaction of the Purchaser that, other than in respect of such arrangements as are notified in writing by the Purchaser to the Vendors within 5 business days before the Completion Date:

(i) all inter-company accounts (other than as contemplated in Clause 6.3(h)) between any member of the Deutsche Group (other than Group Members), on the one hand, and any Group Member on the other hand; and

(ii) all intercompany agreements (other than Parent Support Obligations, the Transaction Documents, the agreement contemplated by Clause 6.11, any agreements entered into in accordance with Clause 6.8 and the agreement referred to in Clause 6.12, and subject to Clause 6.3(e)) between any member of the Deutsche Group (other than Group Members), on the one hand, and any Group Member, on the other hand,

shall have been terminated in writing.

(g) (REPAYMENT OF FACILITY) Written acknowledgement that the debt described in Schedule 9 has been fully and finally repaid in accordance with that Schedule.

(h) (FM BUSINESSES FACILITY) Documentation in a form reasonably satisfactory to the Purchaser under which the Warrantor agrees to provide a facility for a period of 3 months from the Completion Date for the benefit of BTAL for up to an amount of $1,250,000,000 which is available throughout that period to be used by BTAL for the FM Businesses (including in the margin lending business) carried on and conducted in Australia or New Zealand by the Group on terms no less favourable to BTAL than the facility in place as at the date of this Deed.

The Vendors may effect delivery of the documents described in paragraphs (a) and (b) above by making them available at the offices of any of the Companies.

6.3A LEGAL OPINION

On or before the Completion Date, the Warrantor shall provide to the Purchaser's Guarantor and the Purchaser's Guarantor shall provide to the Warrantor customary legal opinions in relation to their due execution of the Transaction Documents and the due execution of the Transaction Documents by their respective Related Bodies Corporate.

6.4 APPROVAL OF TRANSFERS

Subject to Clause 6.7, the Vendors shall ensure that a meeting of the directors of each Company is held, or resolutions are otherwise duly passed, on or before the Completion Date at which the directors resolve:

(a) to approve the registration of the transfers of the relevant Sale Shares (subject only to payment of stamp duty, if applicable); and

(b) to issue new share certificates (if required) for the relevant Sale Shares in the names of the transferees (subject only to payment of stamp duty, if applicable).

6.5 COMPLETION DATE BOARD MEETINGS

Subject to Clause 6.7, the Vendors shall ensure that a meeting of the directors of each Group Member is held on or before the Completion Date at which the nominees of the Purchaser, subject to the approval, if required, of the MAS in respect of BTFMS and of the SFC in respect of BTFMA, are appointed as directors and secretaries and the resignation of each resigning director and secretary is accepted.

6.6 PAYMENT OF PURCHASE PRICE, RE-FINANCING AND TRANSACTION DOCUMENTS

On the Completion Date and subject to compliance with Clauses 6.2 to 6.5 by the Vendors, the Purchaser shall:

(a) pay an amount equal to the Total Purchase Price by telegraphic transfer in immediately available funds to an account or accounts as nominated by the Vendors;

(b) subject to Clause 6.7, deliver to the Vendors one bought note executed by the Purchaser in respect of 349,999 common shares in BTFMA and one bought note executed by the Purchaser in respect of 1 common share in BTFMA;

(c) subject to Clause 6.7, provide to the Vendors a cheque made payable to the Government of the Hong Kong Special Administration Region for an amount in Hong Kong dollars calculated by the Vendors to be the Hong Kong dollar equivalent to 0.25% of the higher of the Purchase Price payable for Sale Shares in BTFMA as set out in Column 4 of Schedule 1 and the value of those Sale Shares as determined from BTFMA's latest audited accounts;

(d) subject to Clause 6.7, provide to the Vendors a written undertaking in favour of the Inland Revenue Department of the Hong Kong Special Administrative Region to pay all stamp duty properly assessed under the Stamp Duty Ordinance on the transfer of the Sale Shares in BTFMA; and

(e) deliver counterparts of the Transaction Documents delivered by the Vendors in accordance with Clause 6.3(d) executed by it or a Purchaser Entity (as the case may be) to which it is a party.

6.7 DELAY IN SATISFYING CONDITIONS IN CLAUSE 2.3

(a) If any of the conditions for Completion of the sale and purchase of the Sale Shares (the RELEVANT SHARES) in a particular Company (the RELEVANT COMPANY) specified in Clause 2.3 have not been satisfied or waived by the Vendors and the Purchaser on or before the Completion Date, the obligations of the parties in respect of the Relevant Shares and the Relevant Company under Clauses 6.1,6.2, 6.3(a) and (c), 6.4, 6.5 and (if the Relevant Company is BTFMA) 6.6(b), (c) and (d) shall be deferred until the business day (the RELEVANT DATE) which is 2 business days after those conditions are duly satisfied or waived.

(b) The Purchaser shall be responsible for the day to day management of the Companies on and from Completion of the sale and purchase of the BTIA Shares and, if Clause 6.7(a) applies, shall ensure that the Business of the Relevant Company is carried on in the ordinary and usual course until the earlier of the Relevant Date and the Drop Dead Date, provided that the Purchaser shall ensure that the Relevant Company does not do or agree to do, any of the things specified in Clause 3.1(b), subject to Clause 3.2, during that period without the prior written consent of the Warrantor.

(c) If the Relevant Date occurs on or before the Drop Dead Date, the Warranties given in respect of the Relevant Shares and Relevant Company shall be taken to have been given on, and with effect as at, the Relevant Date.

(d) If the Relevant Date does not occur on or before the Drop Dead Date, then the sale and purchase of the Relevant Shares shall not proceed and:

(i) the Purchase Price or Adjusted Purchase Price (as the case may be) of Relevant Shares shall be refunded to the Purchaser as provided for in Clause 12.1(b);

(ii) the Purchaser shall indemnify the Vendors of the Relevant Company against any loss suffered by the Relevant Company or the Vendors as set out in paragraph (e) only to the extent to which the loss arises as a result of the negligence or wilful misconduct of an Officer of the Relevant Company; and

(iii) the provisions of Clause 3.4 shall cease to apply in respect of the Relevant Company.

(e) For the purposes of paragraph (d)(ii), LOSS shall include:

(i) any decrease in the value of the net assets of the Relevant Company from the Completion Date to the Drop Dead Date (which decrease shall be determined by similar procedures and upon the same basis as applicable to the preparation of the Completion Statement under Clause 10); and

(ii) any Claims (whenever made) against the Relevant Company or any member of the Vendors' Group in respect of any acts or omissions or any breach of contract, fiduciary duty, law or the terms of any Authorisation by the Relevant Company or any of its Officers or otherwise arising from the conduct of the Business or affairs of the Relevant Company between the Completion Date and the Drop Dead Date.

6.8 OFFSHORE FM BUSINESSES

(a) (IRELAND) On and from the date of this Deed, the Purchaser shall use reasonable endeavours to obtain all necessary regulatory approvals, including from the Central Bank of Ireland and the SFC, to effect a change in the manager of the BT International Investment Series of funds, as performed in Ireland, from BT Fund Managers (Ireland) Limited to the Purchaser or a Related Body Corporate of the Purchaser to have effect not before the Completion Date and no later than the Drop Dead Date.

If so requested by the Purchaser, the Warrantor agrees (at the cost of the Purchaser) to procure the resignation of BT Trustee Company (Ireland) Limited as trustee of the BT International Investment Series or, if so requested by the Warrantor, the Purchaser agrees (at the cost of the Warrantor) to permit the resignation of BT Trustee Company (Ireland) Limited and, in either case, the Purchaser shall procure the appointment of a successor trustee, subject to receipt of any necessary regulatory and unitholder approvals.

Pending such transfer of this Offshore FM Business, the Vendors and the Purchaser shall take all reasonable steps to ensure that this Offshore FM Businesses is carried on in the ordinary and usual course.

(b) (UK) On and from the date of this Deed, the Purchaser shall use reasonable endeavours to obtain all necessary regulatory approvals, including from the Securities and Futures Authority, to permit a Purchaser Entity to operate the FM Businesses of the Group conducted in the United Kingdom by BTI, such approvals to have effect not before the Completion Date and no later than the Drop Dead Date.

With effect on and from the receipt of all necessary approvals contemplated in this paragraph (b) (CHANGEOVER DATE), the Purchaser or its Related Body Corporate shall make an offer of employment, in a form satisfactory to the Vendors, to all the then current Employees employed by BTI in London in carrying out the activities of this Offshore FM Business (RELEVANT EMPLOYEES) on terms no less favourable than they enjoy at such time. The Warrantor shall, at least 15 business days before the Changeover Date, provide to the Purchaser sufficient details of the Relevant Employees and

their terms of employment to allow the Purchaser or its Related Body Corporate to make such offers of employment.

Pending such transfer of this Offshore FM Business, the Vendors and the Purchaser shall take all reasonable steps to ensure that this Offshore FM Business is carried on in the ordinary and usual course.

(c) (ALBERTA TREASURY IMC) On and from the Completion Date, the Warrantor and the Purchaser shall use all reasonable endeavours to procure the novation of the rights and obligations of BTC under the Individually Managed Client Agreement dated 8 November 1991 made between Her Majesty the Queen in the Right of the Province of Alberta as represented by the Provincial Treasurer and BTC (the ALBERTA CONTRACT) in favour of BTFMIL to have effect not before the Completion Date and no later than the Drop Dead Date. Pending the novation of the Alberta Contract, the Warrantor shall ensure that BTC complies with all of its obligations under the Alberta Contract and the Purchaser shall ensure that the Group Members continue to carry on the activities related to the Alberta Contract in the ordinary and usual course.

(d) (COMMON FUND IMC) Up to the Completion Date, the Warrantor shall ensure that BTC does not dismiss Craig McCauley as an employee (other than for cause) and permits him to manage US securities for the Common Fund Bond Portfolio under the Individually Managed Client Agreement dated 1 June 1995 made between the Common Fund and BTFMIL. After the Completion Date, the Purchaser shall make whatever arrangements are necessary to enable BTFMIL to continue managing that portfolio and the Warrantor shall have no continuing obligations under this paragraph.

6.9 POST COMPLETION LOAN BALANCES

(a) Except as required by the IB Deed and subject to Clauses 6.3(f) and (h), all outstanding amounts made available by the Deutsche Group (other than Group Members) to Group Members before the Completion Date shall be repaid in full on or before the Completion Date.

(b) No later than 3 months after the Completion Date, the Purchaser shall ensure that all monies drawn down under the facility referred to in Clause 6.3(h) are fully repaid.

6.10 PARENT SUPPORT OBLIGATIONS

The Purchaser:

(a) will use reasonable endeavours to ensure that all Parent Support Obligations listed in Schedule 14 are fully released as soon as practicable after the Completion Date and that all other Parent Support Obligations are fully released as soon as practicable after they are identified; and

(b) indemnifies the Vendors, the Warrantor and the Vendors' Guarantor against any Claim arising as a result of the continued existence or enforcement of any Parent Support Obligation following the Completion Date, except, in each case, to the extent that any Parent Support Obligation or Claim relates to any Group Member or Offshore FM Business which is not ultimately sold to the Purchaser under this Deed.

6.11 CUSTODY ARRANGEMENTS

The Purchaser acknowledges and agrees (despite Clause 3.1) that BTC proposes to formalise with Group Members on arms length terms the custody and sub-custody services (and services incidental to them) provided by BTC and BTCO to Group Members and by Group Members to BTC and BTCO as at the date of the Deed. The Vendors shall use reasonable endeavours to do this before Completion but if they are unable to do so, the Purchaser will use reasonable endeavours to procure that the relevant Group Members enter into appropriate contracts with BTC as soon as practicable after the Completion Date. Within a reasonable time of the Completion Date, the Purchaser and the relevant Group Members shall negotiate in good faith with BTCO to determine the basis, if any, on which the relevant members of the Group and BTCO may continue to provide custody and sub- custody services (and services incidental to them) to their respective clients,

6.12 DEUTSCHE FUNDS MANAGEMENT

The Warrantor covenants to ensure that the agreement between Deutsche Funds Management and BT Portfolio Services Limited dated 8 December 1998 will not be terminated in consequence of the entry into or performance of this Deed.

7. NOTICE TO COMPLETE

7.1 NOTICE BY THE PURCHASER

If any Vendor fails to satisfy its obligations under Clauses 6.1 to 6.6 in respect of the BTIA Shares on the due date (the DEFAULTING VENDOR), the Purchaser may give the Vendors a notice requiring the Defaulting Vendor to satisfy those obligations within a period of 10 business days from the date of receipt of the notice and declaring time to be of the essence in all respects. If the Defaulting Vendor fails to satisfy those obligations on the date specified in the Purchaser's notice, the Purchaser may, without affecting or limiting any other rights it might have, terminate this Deed.

7.2 NOTICE BY THE VENDORS

If the Purchaser fails to satisfy its obligations under Clauses 6.1 to 6.6 in respect of the BTIA Shares on the due date, the Vendors may give the Purchaser a notice requiring it to satisfy those obligations within a period of

10 business days from the date of receipt of the notice, and declaring time to be of the essence in all respects. If the Purchaser fails to satisfy those obligations on the date specified in the Vendors' notice, the Vendors may, without affecting or limiting any other rights it might have, terminate this Deed.

8. WARRANTIES, CLAIMS AND DISPUTES

8.1 WARRANTIES AND INDEMNITY BY THE WARRANTOR

(a) The Warrantor represents and warrants to the Purchaser, the Purchaser's Guarantor and the Purchaser Entities in the terms set out in Parts I and II of Schedule 4 and makes no other warranties.

(b) Subject to the other provisions of this Clause 8, the Warrantor indemnifies the Purchaser against any Claim which is incurred or suffered by or brought or made or recovered against any Group Member Or in respect of any Offshore FM Business and which constitutes a breach of the Warranties.

8.2 WARRANTIES BY THE PURCHASER AND PURCHASER'S GUARANTOR

The Purchaser and the Purchaser's Guarantor represent and warrant to the Vendors and the Warrantor in the terms set out in Part III, and undertake to comply with the terms set out in Part IV, of Schedule 4.

8.3 EFFECTIVE DATES

Subject to Clause 6.7(c), the Warranties are given as at the date of this Deed and as at the Completion Date, except where a Warranty is expressed to be made as at or in respect of a particular date.

8.4 DISCLOSURES

(a) The Purchaser and the Purchaser's Guarantor acknowledge that the Vendors and the Warrantor have disclosed, or are taken to have disclosed, to them any matter:

(i) provided for or described in this Deed or any other Transaction Document;

(ii) fairly disclosed in the Disclosure Material;

(iii) disclosed in writing to the Purchaser or the Purchaser's Guarantor or any of their respective directors, employees, Advisers or agents who have participated in the investigation any of them undertakes of the affairs of the Group; or

(iv) that would have been disclosed had searches been conducted prior to the Completion Date of records open to public inspection maintained by Australian Stock Exchange Limited, Sydney Futures Exchange Limited, the Australian Securities

and Investments Commission, the Trade Marks Office, the, High Court, the Federal Court and the Supreme Courts and Land Titles Offices in any State or Territory in Australia and each equivalent Public Authority in the United States of America, Hong Kong, Singapore, Malaysia and New Zealand against a Vendor or any Group Member.

For the purposes of this Clause, a matter is FAIRLY DISCLOSED if sufficient information has been disclosed that, if disclosed to a reasonable person (in the position of and with the Advisers used by the Purchaser and the Purchaser's Guarantor), that person would be aware of the substance and significance of the information.

(b) The Purchaser and the Purchaser's Guarantor acknowledge that where a matter has been disclosed or taken to have been disclosed to the Purchaser and the Purchaser's Guarantor under paragraph (a) and that disclosure would have prompted a reasonable person to make further enquiries, any matter which would have been disclosed had the Purchaser or the Purchaser's Guarantor made those enquiries will be taken to have been disclosed to the Purchaser and the Purchaser's Guarantor.

8.5 CONSTRUCTION

Each Warranty is to be construed independently of the others and is not limited by reference to any other Warranty.

8.6 LIMITATION ON WARRANTOR'S AND VENDORS' LIABILITY

Notwithstanding any other provision of this Deed each of the following applies.

(a) (MAXIMUM LIABILITY) Except for Warranty 3.1 in Part 1 of Schedule 4 (the TITLE WARRANTY), the Tax Warranties, or in the case of fraudulent misstatement, the maximum aggregate liability of the Warrantor and the Vendors for breach of the Warranties (including pursuant to Clause 8.1 (b)) will be limited to the amount of $500,000,000. In the case of a breach of the Title Warranty in respect of any Sale Shares, the maximum liability of the Warrantor and the Vendors will be the Purchase Price or the Adjusted Purchase Price (as the case may be) of those Sale Shares. In the case of a breach of the Tax Warranties, the maximum liability of the Warrantor and the Vendors will be the Total Purchase Price or the Total Adjusted Purchase Price (as the case may be). The particular limits set out above are subject to the overriding limit that the maximum aggregate liability of the Warrantor and the Vendors for breach of the Warranties will be limited to the Total Purchase Price or the Total Adjusted Purchase Price (as the case may be).

(b) (TIME LIMIT) The Warrantor and the Vendors will not have any liability in respect of any Claim:

(i) under the Warranties (other than Tax Warranties), unless reasonable particulars of the Claim are given to the Warrantor or the Vendor (as applicable) before 31 March 2003; or

(ii) under the Tax Warranties, unless reasonable particulars of the Claim are given to the Warrantor or the Vendor (as applicable) within the period described in a law relating to Tax allowing the increase by a Tax Authority of a particular Tax liability, but in any event, before 30 June 2006. No time limit shall apply to any Claim under the Tax Warranties which relates to an obligation to pay, collect or remit withholding tax or involves an avoidance of Tax due to fraud or evasion by a Group Member.

(c) (NOTICE BEFORE COMPLETION) If the Purchaser does not comply with Clause 815(a), the Warrantor and the Vendors shall not be liable for breach of Warranty in respect of the relevant Claim whenever arising to the extent to which the Purchaser's failure to comply has had a material prejudicial effect on the Warrantors or the Vendors.

(d) (POST COMPLETION ACTIONS OR OMISSIONS) The liability of the Warrantor or the Vendors in respect of any Claim under the Warranties will be reduced or extinguished (as the case may be) to the extent that any act or omission after Completion by the Purchaser, any Related Body Corporate of the Purchaser or any of their Officers or any person acting or purporting to act on their behalf or deriving title from them has resulted in, or contributed to the amount of, the Claim. An act or omission of the Purchaser shall include any of:

(i) a claim, election, surrender or disclaimer made or notice or consent given by the Purchaser or the Group Member after Completion, otherwise than at the request of the Vendor under the provisions of this Deed;

(ii) a failure or omission by the Group Member to make any claim, election, surrender or disclaimer or give any notice or consent or do any other thing after Completion, the making, giving or doing of which was taken into account in computing a Tax Provision;

(ill) a failure by the Purchaser to comply with any of its obligations under Clauses 8.10, 8.11 or 8.12; and

(iv) a failure by the Purchaser to comply with any of its obligations under Part IV of Schedule 4.

(e) (CREDIT) If after the Warrantor or the Vendor has made a payment to the Purchaser under a Claim made under the Warranties, the Purchaser receives any benefit or credit (including any Tax benefit) in respect of the matters to which the Claim relates, then the Purchaser shall immediately repay to the Warrantor a sum corresponding to the amount of the payment or (if less) the amount of the benefit or credit.

(f) (DISCLOSURES) It is not a breach of Warranty if the matter which is the subject of the Warranty or the Claim for breach of Warranty has been disclosed (or taken to be disclosed) by virtue of Clause 8.4. This provision does not apply in respect of a Tax Warranty.

(g) (THRESHOLDS) The Warrantor and the Vendors will not be liable to the Purchaser for any Claim under the Warranties unless the amount of the Claim suffered or incurred by the Purchaser or the Group Members:

(i) is for an amount in excess of $1,000,000; and

(ii) either alone or when aggregated with the amount of any other claims under the Warranties properly made against the Warrantor and the Vendors under this Deed exceeds, in respect of a Tax Warranty, $50,000,000 and, in respect of any other Warranty, $25,000,000 and, in both cases, only to the extent of such excess.

(h) (CHANGE OF LAW OR INTERPRETATION) It is not a breach of Warranty:

(i) where the Claim arises as a result of any legislation not in force at the date of this Deed (other than Bills introduced into the Australian parliament in their tabled form as at 11 June 1999), including legislation which takes effect retrospectively and any change in rates of Tax announced after the date of this Deed; or

(ii) where the Claim arises as a result of or in respect of a change in the judicial or administrative interpretation of the law or any change in practice or policy of any Public Authority in any jurisdiction after the date of this Deed, including the change or withdrawal after the date of this Deed of any ruling, determination, policy or practice previously published or followed by any Taxation Authority.

(i) (RECOVERY UNDER ANY OTHER RIGHT) The Warrantor and the Vendors will not be liable to the Purchaser for any Claim under any Warranty to the extent that the Purchaser or any Group Member is or would be, but for this paragraph (i), entitled to claim an indemnity against, or to otherwise recover from a person other than the Warrantor or the Vendors in respect of, any loss or damage suffered by the Purchaser or that Group Member arising out of the Claim, whether by way of contract, indemnity or otherwise.

(j) (PROVISION) Any amount which has been included as a provision or allowance in the Completion Statement is not an amount which may be included in a Claim for breach of Warranty.

(k) (DOING PROHIBITED ACTS) The Warrantor and the Vendors will not be liable in respect of a Claim made under or in respect of this Deed where the liability would not have arisen but for the doing of an act,

or the failure to act, by the Purchaser or the Purchaser's Guarantor in breach of any provision of this Deed.

(l) (COMPENSATING BENEFITS) If the Warrantor can demonstrate to the reasonable satisfaction of the Purchaser that either:

(i) an accrual, allowance, provision or reserve in respect of any Tax in respect of a Group Member in the Completion Statement or, if not in the Completion Statement, in the Tax Provision exceeds the actual liability in respect of that Tax; or

(ii) an entitlement to any Relief which is shown as an asset in respect of a Group Member in the Accounts (and in this respect no such asset means a value of nil) is understated and the amount of the understatement is able to be actually availed of by the Group Member,

then its liability to the Purchaser for a Claim for breach of any Warranty shall be reduced by the amount of the excess or the understatement, respectively.

(m) (TIMING DIFFERENCES) To the extent that a Tax Claim only involves a timing difference (which through the effluxion of time and the operation of a Tax law does not give rise to a permanent difference) (for example, an amount being assessable in the year ending 31 December 1998, rather than in the succeeding year, or an amount being deductible in the year ending 31 December 1999 (or over that year and later years), rather than in the preceding year (or the 31 December 1998 year)), then the Claim shall be limited to any interest, penalty or other charge levied as a result of the late payment of Tax.

8.7 NO RELIANCE

(a) The Purchaser and the Purchaser's Guarantor represent and warrant to the Vendors' Group, the Warrantor and the Deutsche Group that:

(i) at no time has the Warrantor or any other member of the (Vendors' Group or the Deutsche Group, made or given any representation, warranty, promise or forecast upon which the Purchaser or the Purchaser's Guarantor has relied except those referred to in Clause 8.1 (a);

(ii) no other statements or representations:

(A) have induced or influenced the Purchaser or the Purchaser's Guarantor to enter into this Deed or agree to any or all of its terms;

(B) have been relied on in any way as being accurate by the Purchaser or the Purchaser's Guarantor;

(C) have been warranted to the Purchaser or the Purchaser's Guarantor as being true; or

(D) have been taken into account by the Purchaser or the Purchaser's Guarantor as being important to its decision to enter into this Deed or agree to any or all of its terms; and

(iii) each has had the opportunity to make and has made reasonable enquiries in relation to all matters material to it which relate to the Group and which are not covered by the Warranties and satisfied itself in relation to the matters arising from those investigations.

(b) The Purchaser and the Purchaser's Guarantor acknowledge that the Vendors, the Warrantor and the Deutsche Group have relied on the agreement by the Purchaser and the Purchaser's Guarantor to make the representations and warranties referred to in paragraph (a) in selecting the Purchaser as the purchaser of the Sale Shares and Offshore FM Businesses, that such representations and warranties are a fundamental term of this Deed and that the Vendors, the Warrantor and the Deutsche Group would not have selected the Purchaser as the purchaser of the Sale Shares and Offshore FM Businesses or entered into this Deed or any Transaction Document with the Purchaser and the Purchaser's Guarantor if the Purchaser and the Purchaser's Guarantor were not prepared to make those representations and warranties.

(c) The Vendors receive the benefit of this Clause 8.7 and Clauses 8.8 and 8.9 in their own right and as agent for each member of the Vendors' Group and the Deutsche Group.

8.8 STATUTORY ACTIONS

In recognition of the representations and warranties given by the Purchaser and the Purchaser's Guarantor under Clause 8.7 and by the Warrantor under Clause 9 of Part 1 of Schedule 4 and to the extent permitted by law, each of the Purchaser and the Purchaser's Guarantor agree not to make and waive any right it may have to make any Claim against any Vendor, the Warrantor or any member of the Deutsche Group or any of their respective Officers, employees, agents or Advisers, whether in respect of the Warranties or otherwise, under:

(a) (AUSTRALIA) section 52 of the Trade Practices Act 1974, section 12DA of the Australian Securities and Investments Commission Act or any provision of Part 7.11 of the Corporations Law, or any corresponding or similar provision of any Australian state or territory legislation;

(b) (NEW ZEALAND) the New Zealand Fair Trading Act 1986, or any corresponding or similar provision of any other legislation in New Zealand; and

(c) (OTHER JURISDICTIONS) any similar provision of any legislation in any other relevant jurisdiction.

8.9 INDEMNITY

(a) If the Purchaser, the Purchaser's Guarantor, any other Purchaser Entity, or any person acting through them, makes a Claim against any member of the Vendors' Group, the Warrantor or the Deutsche Group (an INDEMNIFIED PARTY) contrary to Clause 8.7 or 8.8, then the Purchaser and the Purchaser's Guarantor will release, or will procure the release by the Purchaser Entity or by the person, of the Indemnified Party from, and will indemnify the Indemnified Party against, such a Claim.

(b) Each of the Vendors and the Warrantor has sought the indemnity received under paragraph (a) both on its own behalf and on behalf of the other Indemnified Parties and any of the Vendors or the Warrantor may enforce the indemnity given under paragraph (a) in its own name and/or on behalf of any such Indemnified Party.

(c) Notwithstanding any other provision of this Deed, the Purchaser agrees to indemnify the Vendors and the Warrantor against the amount of any additional Tax or in respect of the loss of any Tax benefit or Relief arising out of any breach of any provision in Part IV of Schedule 4.

8.10 DEALING WITH THIRD PARTY CLAIM OR TAX CLAIM AFTER COMPLETION DATE

(a) (THIRD PARTY CLAIM) If the Purchaser or the Purchaser's Guarantor become aware after the Completion Date of any circumstances which constitute or could (whether alone or with any other possible circumstances) constitute a Claim (other than a Tax Claim) against the Purchaser or any Group Member (other than a Claim to which Clause 8.9 applies) which if satisfied might reasonably result in a Claim (other than a Tax Claim) against the Warrantor or the Vendors for breach of any Warranty or pursuant to the IB Indemnity (a THIRD PARTY CLAIM), the Purchaser must do each of the following:

(i) as soon as reasonably practicable give the Warrantor full details of the circumstances and any further related circumstances of which the Purchaser or the Purchaser's Guarantor became aware;

(ii) until it notifies the Warrantor in accordance with paragraph (i), take reasonable steps to mitigate any loss which may give rise to such a Claim against the Warrantor or a Vendor;

(iii) not make any admission of liability, agreement or compromise with any person in relation to the Third Party Claim without first consulting with and obtaining the approval of the Warrantor (which approval shall not be unreasonably withheld or delayed);

(iv) give the Warrantor and its Advisers access on such terms as would satisfy section 263 of the Tax Act, but subject to any confidentiality obligations which the Purchaser or a Group Member may be subject to arising by operation of law, to:

(A) the personnel and premises of the Purchaser and any Group Member; and

(B) relevant chattels, accounts, documents and records within the power, possession or control of the Purchaser and any Group Member,

to enable the Warrantor and its Advisers to examine the circumstances, premises, chattels, accounts, documents and records relating to the Third Party Claim and to obtain copies (including certified copies) or photographs of them at their own expense; and

(v) (A) at the Warrantor's expense, take all action in good faith and with due diligence that the Warrantor reasonably directs to avoid, remedy or mitigate the Third Party Claim, including legal proceedings and disputing, defending, appealing or compromising the Third Party Claim and any adjudication of it; and

(B) with the consent of the Purchaser (such consent not to be unreasonably withheld or delayed) conduct the action using professional advisers nominated by the Warrantor and approved by the Purchaser for this purpose and, if requested by the Warrantor, grant carriage of the action to the Warrantor. If the Purchaser so requests:

(1) the Purchaser shall be entitled to be kept informed of all material matters pertaining to such action and shall be entitled to see copies of all correspondence and other documents pertaining to such action; and

(2) the Warrantor and Vendor shall make no settlement or compromise of the Third Party Claim, nor agree any matter in the conduct of the dispute, which is likely to affect the future liability of any Group Member, without the prior written approval of the Purchaser, such approval not to be unreasonably withheld or delayed.

(b) (TAX CLAIMS) If the Purchaser or the Purchaser's Guarantor become aware after the Completion Date of any circumstances which constitute or could (whether alone or with any other possible

circumstances) constitute a Tax Claim (other than a Claim to which Clause 8.9 applies), the Purchaser must do each of the following:

(i) as soon as reasonably practicable give the Warrantor full details of the circumstances and any further related circumstances of which the Purchaser or the Purchaser's Guarantor become aware, including, the provision on a continuous basis of any written notes of any material oral communications the Purchaser, the Purchaser's Guarantor, a Group Member or any person acting on their behalf has had with any representative of a Taxation Authority concerning any material matter relating to a Tax Claim or potential Tax Claim which relates to a period prior to Completion;

(ii) forward, or cause to be forwarded, to the Warrantor within 10 business days of receipt by the addressee a copy of any Notice of Assessment, Notice of Amended Assessment, any other demand for payment, any notice, correspondence or other document relating to a Tax Claim or potential Tax Claim received from a Taxation Authority or any legal representative of a Taxation Authority or any court or tribunal in connection with or related to a Tax Claim;

(iii) consult with the Warrantor as to the appropriate response to any notice, correspondence, demand or other document referred to in (ii) above, which may include without limitation, the preparation and lodgment of a Notice of Objection, a reference to the relevant Tribunal or an action in or appeal to a Court;

(iv) ensure, subject to subparagraph (vii) below, that a relevant Group Member takes all reasonable action (including the making of objections and appeals) that the Warrantor requests to avoid, resist, compromise or defend a demand or notice issued by a Taxation Authority which gives rise to the Tax Claim, provided that the Warrantor indemnifies the Purchaser and any Group Member against any costs which may be suffered or reasonably be incurred as a result of compliance with their request;

(v) ensure the Warrantor has control over the form and substance of the action to be taken and any appeals or further actions in respect of such action, notwithstanding that any Group Member is a party to such action;

(vi) ensure that neither it nor any Group Member will compromise or discontinue any proceedings taken under this Clause without the prior written consent of the Warrantor;

(vii) ensure that both it and each relevant Group Member does, at the Warrantor's cost and expense, all that the Warrantor reasonably requests it to do to pursue any and all of the steps

contemplated by this paragraph 8.10(b) unless in the case of an appeal or other relevant litigation, it reasonably considers that such an appeal or other relevant litigation would be injurious to the name or reputation of the Purchaser or a Group Member and in any such case, an independent tax adviser (appointed by agreement between the Purchaser and the Warrantor or, failing such agreement, selected by the President for the time being of the Taxation Institute of Australia) advises in writing that in his or her opinion the basis for any objection, application, appeal or other relevant litigation requested by the Warrantor would not be arguable on reasonable grounds and would be an abuse of process; and

(viii) give the Warrantor and its Advisers access on such terms as would satisfy section 263 of the Tax Act, but subject to any confidentiality obligations which the Purchaser or a Group Member may be subject to arising by operation of law, to:

(A) the personnel and premises of the Purchaser and any Group Member; and

(B) relevant chattels, accounts, documents and records within the power, possession or control of the Purchaser and any Group Member,

to enable the Warrantor and its Advisers to examine the circumstances, premises, chattels, accounts, documents and records relating to the Tax Claim and to obtain copies (including certified copies) or photographs of them at their own expense.

(c) (FAILURE TO COMPLY) Any failure by the Purchaser to comply with this Clause 8.10 does not prevent the Purchaser or any Group Member either from recovering any loss incurred in connection with the Third Party Claim or the Tax Claim against it or any Group Member except to the extent such failure materially prejudices the ability of the Warrantor or the Vendor to defend the Third Party Claim or the Tax Claim or otherwise materially increases the liability of the Warrantor or the Vendors.

(d) (WARRANTOR'S CAPACITY) For the purposes of Clause 8.10, the Warrantor shall act on its own behalf and on behalf of the Vendors (if applicable).

8.11 TAX ASSESSMENT

If a Tax Claim against a Group Member gives rise to a Claim against the Warrantor under this Deed, the Purchaser shall cause the Group Member, upon written request by the Warrantor, to co-operate in seeking an extension of time to pay all or part of the Tax assessed pending objection and/or appeal and to refrain from paying the Tax during the period of any extension of time.

8.12 PROCEDURE FOR MAKING CLAIM

(a) The Purchaser shall not make a Claim against a Vendor or the Warrantor under or in respect of this Deed (other than under Clause 10) unless:

(i) the Purchaser acts bona fide as to the existence, nature and amount of such Claim;

(ii) such Claim is made under this Clause 8.12 (not by any other means) and subject to and in accordance with the provisions of this Deed and any other Transaction Document applicable to such Claim; and

(iii) the Purchaser gives prompt notice to the Vendor or the Warrantor (as the case may be) specifying details of the Claim and/or the amount (including any interest payable under this Deed) claimed (a CLAIM NOTICE).

(b) If the Vendor or Warrantor (as the case may be) disputes the Purchaser's Claim under a Claim Notice, then it must serve a notice on the Purchaser within 20 business days after receipt of the Purchaser's notice (a DISPUTE NOTICE).

(c) If the Vendor or Warrantor (as the case may be) do not serve a Dispute Notice, the Purchaser is entitled, in relation to the Claim, to the amount claimed by the Purchaser in the Claim Notice above (subject to the application of Clauses 8.6(a) and 8.6(g) or any other amount agreed between the Vendor or Warrantor (as the case may be) and the Purchaser.

(d) If the Vendor or Warrantor (as the case may be) serves a Dispute Notice:

(i) the Purchaser and the Vendor or Warrantor (as the case may be) must, for a period of 10 business days after receipt by the Purchaser of the Dispute Notice, negotiate in good faith to agree the amount (if any) to which the Purchaser is entitled in relation to the Claim or, failing agreement, refer the matter in writing for determination by an Expert appointed and acting in accordance with Clause 8.13; and

(ii) if the Claim is (during that period or subsequently) agreed, compromised, determined or settled in favour of the Purchaser then the Purchaser is entitled, in relation to the Claim, to the amount payable to the Purchaser under that agreement, compromise or settlement.

(e) Any allegation of fraud shall not be referred to the Expert under paragraph (d), and the Purchaser shall be entitled to pursue such legal remedy as it thinks fit.

(f) Each party must bear its own costs and expenses, (including legal, accounting and actuarial fees) arising from observing this Clause 8.12.

8.13 EXPERT

For the purposes of Clause 8.12:

(a) the Expert shall be instructed to make its determination within 20 business days;

(b) each party:

(i) must provide the Expert full access to its books and records and any information required by the Expert to complete its determination; and

(ii) is entitled to make written submissions to the Expert in respect of the matter for determination within 10 business days of the date of the referral to the Expert;

(c) the Expert, when appointed, shall act as an expert and not as an arbitrator;

(d) the determination of the Expert shall be final and binding on the parties and shall be notified to the Purchaser and the Vendor or Warrantor (as the case may be); and

(e) the Expert's costs shall be borne by the Vendor or the Warrantor in the proportions determined by the Expert (the parties acknowledging that such power of determination will not deny the operation of paragraph (c)).

8.14 ALTERATIONS TO PURCHASE PRICE OR ADJUSTED PURCHASE PRICE

(a) Any monetary compensation received by the Purchaser in satisfaction of a Claim for any breach by the Warrantor or a Vendor of any Warranty or under the IB Indemnity shall be taken to be in reduction and refund of the Purchase Price or the Adjusted Purchase Price (as the case may be).

(b) If, subsequent to the payment by the Warrantor of a Claim by way of refund and reduction of the Purchase Price or the Adjusted Purchase Price (as the case may be), the whole or part of the Claim is refunded to a Group Member or otherwise applied for the benefit of a Group Member pursuant to a relevant Tax law or otherwise, then the Purchaser shall forthwith pay by way of additional Purchase Price or Adjusted Purchase Price (as the case may be) the amount refunded or applied pursuant to the relevant law or otherwise.

(c) If any interest is paid or credited to the Group Member in respect of any amount payable to the Warrantor as provided in paragraph (b), the Purchaser shall, in addition, pay by way of additional Purchase Price or Adjusted Purchase Price (as applicable) a sum equal to the interest net of any tax payable by the Purchaser in respect of that interest.

(d) Any adjustment to the Purchase Price or the Adjusted Purchase Price shall relate to particular Sale Shares or particular Offshore FM

Businesses, and the Purchase Price or Adjusted Purchase Price shall be adjusted in relation to the particular Sale Shares or Offshore FM Business to which the adjustment relates and, if there is no direct relationship, then in accordance with the reasonable determination of the Vendors or, failing such determination, in the proportions in which they comprise the Total Purchase Price.

8.15 NOTIFICATION OF WARRANTY BREACH BEFORE COMPLETION

(a) If before Completion the Purchaser or Purchaser's Guarantor become aware of a matter that constitutes a breach of any Warranty, or that the Purchaser or Purchaser's Guarantor believes is likely to constitute a breach of a Warranty (other than a Tax Warranty):

(i) the Purchaser must notify the Warrantor and Vendors of this; and

(ii) the Warrantor and Vendors shall have a reasonable opportunity to remedy the breach or likely breach.

(b) If the Warrantor or Vendors are unable to remedy the breach or potential breach of Warranty or if the Purchaser does not accept the result as a remedy, the Purchaser must still complete the sale and purchase of the Sale Shares in accordance with this Deed.

9. ACCESS TO AND RETENTION OF RECORDS

9.1 ACCESS

(a) The Purchaser undertakes that it shall preserve all Records referable to any time up to the end of the fiscal year in which Completion occurs, for a period whichever is the greater of (i) 5 years from the Completion Date, or (ii) the relevant length of time which is required by statute.

(b) After Completion, to the extent that the Vendors require such access to enable the Vendors' Group to prepare their Tax returns, accounts and other financial statements, to discharge any statutory obligation, or in connection with any Tax or Relief or the conduct of legal or arbitration proceedings by the Vendors, the Purchaser agrees to allow the Vendors and their Advisers, on receiving reasonable notice from the Vendors:

(i) access on such terms as would satisfy section 263 of the Tax Act to the Records at all reasonable times, to inspect (free of charge) and obtain copies including certified copies (at the Vendors' expense) of, the Records; and

(ii) reasonable access to employees of the Purchaser or the Group to assist the Vendors in preparing the tax returns, accounts

and statements and in dealing with any such statutory obligations, Tax, Relief or legal or arbitration proceedings.

(c) The Vendors will reimburse the Purchaser for any reasonable costs incurred by the Purchaser in retrieving any Records for the Vendors under this Clause 9.1.

(d) No Purchaser Entity shall be obliged to waive privilege. Each Purchaser Entity may require the Vendors to take reasonable steps to preserve confidentiality.

9.2 RETENTION

The Purchaser agrees to, and shall ensure that the Group Members, permit the Vendors to retain for their own purposes, but not for commercial or business development purposes, a copy of any Record which is in the possession of the Vendors or the Vendors' Guarantor on Completion. The Vendors or Vendor's Guarantor shall keep all such Records confidential other than disclosures:

(a) to its Advisers, if those Advisers undertake to keep the information disclosed confidential; or

(b) made in compliance with any applicable law or requirement of any regulatory body (including any relevant Stock Exchange).

10. THE COMPLETION STATEMENT

10.1 PREPARATION OF COMPLETION STATEMENT

The Vendors and the Purchaser shall co-operate to ensure that as soon as practicable after the Completion Date and in any event not later than 40 business days thereafter the draft Completion Statement shall have been prepared by the Vendors.

10.2 DELIVERY OF COMPLETION STATEMENT AND VENDORS' ACCOUNTANTS REPORT

Within 10 business days after the preparation of the draft Completion Statement in accordance with Clause 10.1 the Vendors shall procure the Vendors' Accountants to provide to the Vendors and the Purchaser a copy of the Completion Statement together with a written report:

(a) stating that, in their opinion, the Completion Statement has been prepared in the manner provided in Clause 10.5;

(b) stating their opinion as to the amount of Net Assets and the amount (if any) by which Net Assets exceeds or is less than the amount of Preliminary Net Assets (respectively a REPORTED EXCESS or a REPORTED SHORTFALL);

(c) stating their opinion as to the amount of the Total Adjusted Purchase Price and, if applicable, the allocation thereof among the Sale Shares and Offshore FM Business to which any adjustment relates; and

(d) stating their opinion as to the allocation of assets and liabilities of the Group as between the FM Businesses and the IB Businesses.

10.3 ACCESS TO INFORMATION

The Purchaser shall:

(a) provide or ensure the provision of all information and assistance which may be requested by the Vendors and the Vendors' Accountants in connection with the preparation and review of the Completion Statement; and

(b) permit representatives of the Vendors and the Vendors' Accountants to have access to and take extracts from or copies of any books, correspondence, accounts or other records relating to the Group in its possession or control.

10.4 REVIEW BY PURCHASER'S ACCOUNTANTS

The Purchaser shall instruct the Purchaser's Accountants to examine and review the working papers of the Vendors and the Vendors' Accountants relating to the preparation of the Completion Statement. The Purchaser's Accountants shall conduct this examination and review on receipt of the Completion Statement and working papers under Clause 10.2 and shall complete it within 15 business days of such receipt (the REVIEW PERIOD). The parties shall co-operate to ensure that the Purchaser's Accountants are given all information and explanations they reasonably request in relation to the Completion Statement during the Review Period.

10.5 BASIS OF PREPARATION OF COMPLETION STATEMENT

The Completion Statement shall be prepared in accordance with the Accounting Principles and in the form set out in Schedule 6.

10.6 REPORT BY PURCHASER'S ACCOUNTANTS

The Purchaser shall instruct the Purchaser's Accountants to provide to the Vendors and the Purchaser, by no later than the end of the Review Period, a report by the Purchaser's Accountants:

(a) stating whether the Purchaser's Accountants agree with the amount of Net Assets and the allocation of assets and liabilities between the FM Businesses and the IB Businesses stated in the Completion Statement and the Total Adjusted Purchase Price or the allocation thereof among the Sale Shares and Offshore FM Businesses notified by the Vendors' Accountants; or

(b) if the Purchaser's Accountants do not agree with the amount of Net Assets or the allocation of assets and liabilities between the FM

Businesses and the IB Businesses stated in the Completion Statement or the Total Adjusted Purchase Price or the allocation thereof in accordance with Clause 10.10 notified by the Vendors' Accountant, setting out:

(i) the matters in respect of which the Purchaser's Accountants disagree with the Vendors' Accountants;

(ii) the grounds on which the Purchaser's Accountants disagree with the Vendors' Accountants; and

(iii) their opinion as to the amount of Net Assets, the allocation of assets and liabilities between the FM Businesses and the IB Businesses and Total Adjusted Purchase Price and the allocation of it in accordance with Clause 10.10.

10.7 APPLICATION OF CLAUSE 11.1

Clause 11.1 will apply if the Purchaser's Accountants:

(a) state in their report delivered under Clause 10.6 that they agree with the amount of Net Assets and the allocation of assets and liabilities between the FM Businesses and the IB Businesses stated in the Completion Statement and the amount of the Total Adjusted Purchase Price and the allocation of it in accordance with Clause 10.10, as notified by the Vendors' Accountants; or

(b) fail to deliver their report by the end of the Review Period (in respect of which time is of the essence).

10.8 RESOLUTION OF DISPUTES AND APPLICATION OF CLAUSE 11.2

(a) Clause 11.2 will apply if, and only if, the Purchaser's Accountants deliver a report of the kind contemplated by Clause 10.6(b). The matters of disagreement stated in the report by the Purchaser's Accountants, if not resolved between the Vendors and the Purchaser within 10 business days of delivery of the report by the Purchaser's Accountants, will be referred for resolution to an Expert.

(b) The Expert shall be instructed to:

(i) decide within the shortest practicable time the matters of disagreement;

(ii) amend the Completion Statement accordingly; and

(iii) deliver a report stating, on the basis of his decision, his opinion as to the amount of Net Assets, the allocation of assets and liabilities between the FM Businesses and the IB Businesses and the Total Adjusted Purchase Price and the allocation of it in accordance with Clause 10.10.

(C) The Expert shall decide the procedures to be followed in order to resolve the matters of disagreement. The Vendors and the Purchaser shall provide, and shall ensure that the Vendors' Accountants and the

Purchaser's Accountants respectively provide, to the Expert all information and assistance he reasonably requests for the purpose of his report.

10.9 CONCLUSIVENESS OF REPORT

For the purposes of this Clause 10:

(a) the Vendors' Accountants and the Purchaser's Accountants shall act as independent experts, not as arbitrators;

(b) except to the extent that Clauses 10.6(b) and 10.8 may be applicable, the Vendors' Accountants' decision as to the Completion Statement, the amount of Net Assets, the allocation of assets and liabilities between the FM Businesses and the IB Business, the Total Adjusted Purchase Price and the allocation of it among the Sale Shares and Offshore FM Businesses shall be conclusive, final and binding on the parties (except in the case of manifest error); and

(c) the Expert (if appointed) shall act as an independent expert, not as arbitrator. The Expert's decision as to the amount of Net Assets, the allocation of assets and liabilities between the FM Businesses and the IB Business, the Total Adjusted Purchase Price and the allocation of it among the Sale Shares and Offshore FM Businesses shall be conclusive, final and binding on the parties (except in the case of manifest error).

10.10 ADJUSTMENT OF PURCHASE PRICE

If the Completion Statement or, if applicable, the Expert's Report states that any adjustment of the Total Purchase Price should relate to particular Sale Shares or Offshore FM Business, the Purchase Price of that asset shall be adjusted accordingly. Otherwise any adjustment shall be deemed to be made to the Purchase Price of the Sale Shares or Offshore FM Business in the proportions in which they comprise the Total Purchase Price.

10.11 COSTS

The Vendors and the Purchaser shall bear their own costs of and incidental to this Clause 10, the Vendors shall bear the costs of the Vendors' Accountants, the Purchaser shall bear the costs of the Purchaser's Accountants and the costs of the Expert (if appointed) shall be borne one half by the Vendors and one half by the Purchaser.

11. POST-COMPLETION ADJUSTMENT

11.1 IF COMPLETION STATEMENT FINAL

If this Clause applies by operation of Clause 10.7 then, if the amount of Net Assets set out in the Completion Statement:

(a) is less than the amount of Preliminary Net Assets, the Vendors shall within 2 business days of the triggering of this Clause pay by telegraphic transfer cheque to the Purchaser an amount equal to the Reported Shortfall;

(b) exceeds Preliminary Net Assets, the Purchaser shall within 2 business days of the triggering of this Clause pay by telegraphic transfer to the Vendors an amount equal to the Reported Excess; and

(c) equals Preliminary Net Assets, no adjustment to the consideration payable by the Purchaser shall be made.

11.2 If the Accountants have disagreed

If this Clause applies by operation of Clause 10.8, within 2 business days of the disagreement between the Vendors' Accountants and the Purchaser's Accountants being resolved between the parties or of the delivery of the report by the Expert under Clause 10.8 (as the case may be), if the amount of Net Assets set out in the Completion Statement (as resolved by the parties or decided by the Expert):

(a) is less than the amount of Preliminary Net Assets, the Vendors shall pay by bank cheque to the Purchaser an amount equal to the shortfall;

(b) exceeds Preliminary Net Assets, the Purchaser shall pay by bank cheque to the Vendors (or as they direct) an amount equal to .the excess;

(c) equals Preliminary Net Assets, no adjustment to the consideration payable by the Purchaser shall be made.

11 3. INTEREST ON ANY ADJUSTMENT AMOUNT

The party required to pay an adjustment amount pursuant to Clause 11.1 or 11.2 shall, at the time it makes such payment, also pay to the person entitled to the adjustment amount an amount equal to interest payable on the adjustment amount calculated from the Completion Date to the date of payment at the rate of 6% per annum.

12. DROP DEAD DATE ADJUSTMENTS

12.1 FAILURE TO COMPLETE

If Clause 2.7 applies:

(a) the Completion Statement shall be adjusted to reflect the fact that the sale and purchase of the Excluded Shares is not proceeding;

(b) the Purchase Price or Adjusted Purchase Price (as the case may be) of the Excluded Shares plus interest under Clause 11.3 shall be refunded to the Purchaser as soon as practicable; and

(c) any Disclosure Material and Records relating solely or primarily to the Excluded Shares or the Excluded Company will be returned to the relevant Vendor.

13. USE OF NAMES AND TRADE MARKS

13.1 Covenant not to use by Purchaser The Purchaser undertakes to each Vendor and the Warrantor (on behalf of BTC) that, without their written consent, the Purchaser shall not, nor shall any Purchaser Entity, whether:

(a) on its own account; or

(b) jointly with or on behalf of any other person or body corporate, do any of the following:

(c) anywhere in the world -

(i) at any time after the Transition Date, use an Excluded Name or the Pyramid Device for any purpose, including as a part of a business name, company name, trade mark or logo; or

(ii) at any time, apply for the registration, or procure any other person to apply for the registration, of any trade mark, business name or company name that is or includes an Excluded Name or the Pyramid Device;

(d) outside of Australia and New Zealand -

(i) at any time after the Transition Date, use, or carry on any business involving the use of, the BT Name for any purpose, including as part of a business name, company name, trade mark or logo unless permitted under Clause 13.2 or 13.9; or

(ii) at any time, apply for the registration, or procure any other person to apply for the registration, of any trade mark, business name or company name that is or includes the BT Name.

13.2 PURCHASER'S USE OF BT NAME

(a) The Purchaser Entities shall be entitled on and from the Completion Date to use the BT Name, whether as a registered or unregistered trade mark, business name or company name but only:

(i) in connection with the business activities of funds management, portfolio services or margin lending, as carried on or conducted in Australia or New Zealand;

(ii) in connection with the business activities of the IB Businesses anywhere in the world but only until the Transition Date;

(iii) in connection with the business activities of funds management, portfolio services or margin lending conducted outside Australia and New Zealand until the Transition Date; and

(iv) (subject to clause 13.9) in connection with the business activities of funds management, portfolio services or margin lending conducted outside Australia and New Zealand after the Transition Date where:

(A) the use is associated with the offering of a product or service where the funds management, margin lending or portfolio services activity in respect of that product or service is performed by a Purchaser Entity in Australia or New Zealand; or

(B) such use is necessarily incidental to its funds management, portfolio services or margin lending businesses as carried on and conducted in Australia or New Zealand,

and, without prejudice to Clause 13.9, no member of the Vendors' Group will be entitled to bring any Claim against any Purchaser Entity for such use.

(b) The Warrantor agrees to procure BTC to apply to the trade marks offices in Australia and New Zealand for registration of the mark BT Margin Lending and BT Portfolio Services in a form prepared by the Purchaser within 15 business days from the Completion Date and to ' assign all rights in and entitlement to such application or applications to the Purchaser or its nominee (being a Closely-held Subsidiary of the Purchaser) on request for $1.00.

(c) No Purchaser Entity or any of its Officers will be permitted to use the name Pyramid anywhere in the world.

13.3 COVENANT NOT TO USE BY THE WARRANTOR

The Warrantor undertakes to the Purchaser that at all times after the Transition Date it shall not, nor shall any Related Body Corporate or child entity of the Warrantor (as that expression is defined in Part 2E.2 of the Corporations Law), whether:

(a) on its own account; or

(b) jointly with or on behalf of any other person or body corporate, within Australia and New Zealand:

(c) use, or carry on any business involving the use of, the name Bankers Trust, the name BT Pyramid, the Pyramid Device or the BT Name for any purpose, including as part of a business name, company name, trade mark or logo unless such use is permitted under Clause 13.4 or with the consent of the Purchaser; or

(d) enter into any agreement to transfer, license or authorise the use of the name Bankers Trust, the name BT Pyramid, the Pyramid Device or the BT Name in any manner contrary to Clause 13.3(c).

13.4 CONTINUING USE BY WARRANTOR OR DEUTSCHE GROUP

The Deutsche Group and the Warrantor will continue to be permitted to:

(a) use the names Alex. Brown, Wolfensohn and Pyramid in Australia and New Zealand;

(b) offer in Australia and New Zealand services which are performed outside of Australia and New Zealand under the name Bankers Trust in connection with:

(i) US dollar clearing services;

(ii) funds transfer, treasury and liquidity management;

(iii) operational and transaction services;

(iv) global custody services; or

(c) use the name Bankers Trust in Australia and New Zealand, in connection with the completion of client transactions and client contracts entered into prior to the Completion Date in the name of a company whose name includes Bankers Trust, but

(d) will not be permitted to assign, license or otherwise authorise a person (other than a Purchaser Entity) the right to use the BT Name in Australia or New Zealand.

13.5 CANCELLATION OF REGISTRATION

The Warrantor agrees to procure BTC to apply on or before the Transition Date for cancellation in Australia of the BT Portfolio Services and Device mark no. 759539 and in New Zealand of the BT Portfolio Services and Device mark no. 299026, The Warrantor also covenants in furtherance of Clauses 13.2 and 13.3 that, if so requested by the Purchaser, it will procure the cancellation by BTC of the registration in Australia of the BT and Device mark no. 666113.

13.6 ACKNOWLEDGEMENT BY THE PURCHASER

The Purchaser acknowledges that the Warrantor, BTC and their respective Related Bodies Corporate (and any person acting through or in succession to any of them) are and will be entitled to use:

(a) outside of Australia and New Zealand:

(i) an Excluded Name for any purpose, including as part of a business name, company name, trade mark or logo;

(ii) the Pyramid Device for any purpose; and

(iii) the BT Name for any purpose, including as part of a business name, company name, trade mark or logo;

(b) in Australia and New Zealand, the BT Name in connection with the custody business carried on by BTCO Australia Pty Limited until the Transition Date;

(c) anywhere in the world, the Pyramid name (alone or in connection with any other name), but subject to Clauses 13.3 and 13.4; and

(d) within Australia and New Zealand, the Excluded Names as contemplated in Clauses 13.3 and 13.4,

and that the Purchaser will not be entitled to bring any Claim against the Warrantor, BTC or any of their respective Related Bodies Corporate for such use, including for any allegation of infringement of trade mark, passing off or false or misleading conduct.

13.7 ASSIGNMENT OR DISPOSAL OF BT NAME

The Purchaser covenants that, it will not, and will ensure that the Purchaser Entities do not, assign, license or otherwise dispose of the Purchaser's rights to the BT Name to an entity that is not a Purchaser Entity unless the relevant assignee agrees to the limitations of use of the BT Name, Excluded Name and Pyramid Device as set out in this Clause 13 in an agreement expressly in favour of the Warrantor.

13.8 RELINQUISH NAMES

Notwithstanding the foregoing, the Purchaser shall procure that on the date which is 60 days after the Completion Date in respect of an Excluded Name and the Transition Date in respect of the BT Name:

(a) each Group Member listed in Schedule 10 will change its company name to one that does not include any Excluded Name or BT Name;

(b) each Group Member which has registered an Excluded Business Name under a Business Names Act will furnish Cessation of Business under Business Names forms for each of the Excluded Business Names under each relevant Business Names Act to the Warrantor. Each statement shall be properly executed by the registered proprietor of the Excluded Business Name;

(c) each Group Member listed in Schedule 10 destroys all unused stationery and other items which bear any words or marks that includes an Excluded Name or a BT Name, and if the Warrantor so specifies, confirm to it in writing the destruction of all unused stationery and other items in the possession of any Group Member bearing such words or marks; and

(d) BTAL shall terminate the license granted under clause 20.1 of the Malaysian Agreement in accordance with clause 20.2.

13.9 DISTINCTIVE USE

(a) The Purchaser shall ensure that the use of the BT Name by the Purchaser Entities:

(i) does not represent, suggest or identify a continuing connection or association with the Warrantor, its Related Bodies Corporate or any services or products offered by them; and

(ii) is not misleading or deceptive in respect of such matters.

This obligation shall commence no later than the Transition Date.

(b) The actions to be taken under paragraph (a) shall consist of the requirement to issue all public documents (as defined in the Corporations Law) and all letters, business cards, marketing material, promotional items and advertisements to be distributed or issued outside of Australia and New Zealand where the BT Name, or a name of a Purchaser Entity which includes the BT Name, appears in or on such an item, by displaying in reasonable proximity to where the name first appears, a statement to the following effect:

A subsidiary of Principal Financial Services, Inc.; or

A member of Principal Financial Services Group.

(c) The Purchaser will be entitled to use the BT Name on an internet site or webpage but only if a statement to the effect of:

A subsidiary of Principal Financial Service, Inc.; or

A member of Principal Financial Services Group.

or a logo of the Purchaser satisfactory to the Warrantor appears immediately under or above the use of such name on the first page of such site or webpage.

13.10 PROTECTION OF BT NAME

(a) For the purposes of Clause 13 and the Deed of Assignment of Trade Marks, the Warrantor shall (at its own cost), and shall procure BTC to, provide to the Purchaser Entities such assistance as the Purchaser may reasonably require:

(i) in relation to the defence of any proceedings or claim by a person challenging or opposing the use of the BT Name by a Purchaser Entity or the registration by a Purchaser Entity of trade marks incorporating the BT Name (including but not limited to a challenge pursuant to Section 92 of the Trade Marks Act 1995); and

(ii) to apply for and maintain the registration of trade marks incorporating the BT Name.

The assistance which the Warrantor and BTC must provide includes the provision of evidence as to BTC's use of the BT Name.

(b) The Warrantor must not, and must ensure that BTC and all other members of the Vendors' Group do not, challenge or call into question in any way the right of any Purchaser Entity to use the BT Name.

(c) The obligations of the Warrantor (and BTC) under this Clause 13.10 only apply in respect of actions taken or to be taken by a Purchaser Entity which do not constitute a breach by it or the Purchaser of any of the terms of Clause 13.

13.11 BREACH OF COVENANT

The parties acknowledge that damages alone would not constitute an adequate remedy for a breach of any of the provisions of this Clause 13 and that the innocent party will be entitled in that event to pursue all legal and equitable remedies in connection with the breach.

13.12 BENEFIT OF PURCHASER COVENANTS

The covenants given by the Purchaser under this Clause 13 are given for the benefit of the Warrantor, the Vendors and their respective Related Bodies Corporate by the Purchaser as principal and on behalf of the Purchaser Entities and will be repeated by the Purchaser in respect of any entities that become Purchaser Entities at such time and any action taken by Purchaser Entities that is inconsistent with the provisions of this Clause 13 shall be deemed to be a breach of such provision by the Purchaser and the defaulting Purchaser Entities.

14. YEAR 2000 ISSUE

(a) The Purchaser acknowledges that neither the Vendors' Group nor the Warrantor make any representation or warranty in respect of the Year 2000 Issue other than Warranty 11 in Part I of Schedule 4.

(b) The Purchaser represents and warrants that it has reviewed the Vendors' Group Year 2000 Issue compliance program.

(c) Notwithstanding any other provision of this Deed other than Warranty 11 in Part I of Schedule 4, none of the Vendors or the Warrantor shall be liable to the Purchaser in respect of any Claim incurred or suffered by the Purchaser or any Group Member (including loss or damage caused by negligence), arising directly or indirectly as a result of:

(i) a System of any Group Member being affected by Year 2000 Issues;

(ii) the failure of any third party to supply goods or services to any Group Member directly or indirectly as a result of Year 2000 Issues; or

(iii) any defect in goods or disruption of services supplied to any Group Member by a third party or supplied by any Group Member to a third party directly or indirectly as a result of Year 2000 Issues.

15. INSURANCE

(a) The Purchaser acknowledges that it has reviewed in the Disclosure Material the insurance arrangements for the Group.

(b) The Purchaser acknowledges that on and from Completion no member of the Group will have the benefit of any indemnity or other cover under any insurance policy or contract taken out by or in the name of any member of the Deutsche Group or the Vendors' Group.

16. NOTICES

Any notice given under this Deed:

(a) must be in writing addressed to the intended recipient at the address shown below or the address last notified by the intended recipient to the sender:

the Vendors and the Warrantor:

c/o Bankers Trust Corporation
BT Plaza
130 Liberty Street
New York, New York 10005
United States of America
Attention: Mr Fritz Link
General Counsel
Fax: +1-212-250-2154

with a copy to:

Deutsche Bank AG
Level 18
225 George Street
Sydney NSW 2000
Australia
Attention: Mr Robert Pride
General Counsel
Fax: +61-2-9258-1101101

the Purchaser and the Purchaser's Guarantor:

Principal Financial Services, Inc.
711 High Street
Des Moines IA 50392-0300
Attention: Karen E. Shaff
Senior Vice President and Deputy General Counsel
Fax: +1-515-235-9852

(b) must be signed by a person duly authorized by the sender; and

(c) will be taken to have been given or made:

(i) (in the case of delivery in person or by post) when delivered, received or left at the above address; and

(ii) (in the case of fax) on receipt by the sender of the confirmation of transmission,

but if delivery or receipt occurs on a day on which business is not generally carried on in the place to which the communication is sent or is later than 4 pm (local time) it will be taken to have been duly given or made at the commencement of business on the next day on which business is generally carried on in the place.

(d) Any notice to be given by one or more of the Vendors and the Warrantor may be signed on behalf of that Vendor, Vendors or the Warrantor by a person from time to time authorized to give notice under any Transaction Document by the Warrantor.

(e) A notice given to the Warrantor shall be taken to be a notice given to the Vendors.

17. NON-DISCLOSURE

17.1 CONFIDENTIALITY

Subject to Clause 17.2, each party shall keep the terms of this Deed confidential.

17.2 EXCEPTIONS

A party may make any disclosures in relation to this Deed as, in its absolute discretion, it thinks necessary to:

(a) its Advisers and financiers, if those persons undertake to keep the information disclosed confidential;

(b) comply with any applicable law or requirement of any regulatory body (including any relevant stock exchange) or ratings agency provided that the party first informs the other parties in relation to its intention to make such disclosure; or

(c) any of its employees to whom it is necessary to disclose the information, on receipt of an undertaking from that employee to keep the information confidential.

17.3 PUBLIC ANNOUNCEMENTS

Except as required by applicable law or the requirements of any regulatory body (including any relevant stock exchange), in which case each party agrees to first inform the other parties of its intention to make such a disclosure, all press releases and other public announcements relating to the transactions dealt with by this Deed must be in terms agreed by the parties.

18. THE VENDORS' GUARANTOR'S GUARANTEE

18.1 UNDERTAKING

In consideration of the Purchaser and the Purchaser's Guarantor entering into this Deed at the request of the Vendors' Guarantor, the Vendors' Guarantor:

(a) unconditionally and irrevocably guarantees to the Purchaser and the Purchaser's Guarantor on demand the due and punctual performance by each of the Vendors of all its obligations under this Deed; and

(b) shall indemnify the Purchaser and the Purchaser's Guarantor against each Claim incurred or suffered by or brought or made or recovered against the Purchaser or the Purchaser's Guarantor in connection with any default or delay by any Vendor in the due and punctual performance of its obligations under this Deed.

18.2 PRINCIPAL OBLIGATION

This Clause 18 shall:

(a) be a principal obligation of the Vendors' Guarantor and shall not be treated as ancillary or collateral to any right or obligation;

(b) extend to cover this Deed as amended, varied or replaced, whether with or without the consent of the Vendors' Guarantor; and

(c) be a continuing guarantee and indemnity and shall remain in full force and effect for so long as any Vendor has any liability or obligation to the Purchaser or the Purchaser's Guarantor and until all of those liabilities or obligations have been fully discharged.

18.3 NO WITHHOLDINGS

The Vendors' Guarantor will make all payments which may be or become . due under this Clause 18 free and clear and without deduction of any and all present and future taxes, duties, levies, imposts, deductions, charges and withholdings of Australia or any other country or jurisdiction. If the Vendors' Guarantor is compelled by law to deduct any such tax, duty, levy,

impost, deduction, charge or withholding it will pay to the Purchaser or the Purchaser's Guarantor (as the case may be) such additional amounts as may be necessary so that the net payment of the amount due under this Clause 18 after that deduction shall be not less than the payment would have been had there been no deduction.

18.4 NO SET OFF

The Vendors' Guarantor has no right to set off or otherwise deduct or withhold any moneys which it may be or become liable to pay to the Purchaser or the Purchaser's Guarantor under this Clause 18 against any moneys which the Purchaser, the Purchaser's Guarantor or any Purchaser Entity may be or become liable to pay to any of the Vendors or the Vendors' Guarantor whether under this Deed or otherwise.

19. DEFAULT INTEREST

19.1 RATE

If a party fails to pay any amount payable under this Deed on the due date for payment, that party must pay interest on the amount unpaid at the greater of 7.5% per annum or the rate (if any) fixed or payable under any judgement obtained in respect of the amount owing.

19.2 ACCRUALS

The interest payable under Clause 19.1:

(a) accrues from day to day from the due date for payment up to the actual date of payment; and

(b) may be capitalised by the person to whom it is payable at monthly intervals.

20. FURTHER ASSURANCES

Each party shall take all steps, execute all documents and do everything reasonably required by any other party to give effect to any of the transactions contemplated by this Deed.

21. ENTIRE AGREEMENT

This Deed and the other Transaction Documents contain the entire agreement of the parties with respect to their subject matter. They constitute the only conduct relied on by the parties (and supersede all earlier conduct by the parties) with respect to their subject matter. '

22. AMENDMENT

This Deed may be amended only by another agreement executed by all parties who may be affected by the amendment.

23. ASSIGNMENT

The rights and obligations of each party under this Deed. are personal. They cannot be assigned, charged or otherwise dealt with, and no party shall attempt or purport to do so, without the prior written consent of all the parties.

24. NO WAIVER

No failure to exercise and no delay in exercising any right, power or remedy under this Deed will operate as a waiver. Nor will any single or partial exercise of any right, power or remedy preclude any other or further exercise of that or any other right, power or remedy.

25. WAIVER EFFECTIVE

A waiver of, or of any breach of, any condition, right or obligation under this Deed by a party of one part who has the benefit of that condition right or obligation or is otherwise entitled to waive it will only be effective upon the giving of written notice to each party of another part specifying the breach, condition, right or obligation waived.

26. SEVERANCE

Any provision or part of a provision of this Deed which is prohibited or unenforceable in any jurisdiction will be ineffective in that jurisdiction to the extent of the prohibition or unenforceability. That will not invalidate the remaining provisions of this Deed nor affect the validity or enforceability of that provision in any other jurisdiction.

27. NO MERGER

The rights and obligations of the parties will not merge on completion of any transaction under this Deed. They will survive the execution and delivery of any assignment or other document entered into for the purpose of implementing any transaction.

28. COUNTERPARTS

This Deed may be executed in any number of counterparts. All counterparts taken together will be taken to constitute one agreement.

29. STAMP DUTY AND COSTS

Each party shall bear its own costs arising out of the preparation of this Deed and the other Transaction Documents but the Purchaser shall bear any stamp duty or similar impost (including fines, interest and penalties) chargeable in any jurisdiction on this Deed and the other Transaction Documents, on any instruments entered into under this Deed or the other Transaction Documents, and in respect of a transaction evidenced by this Deed or the other Transaction Documents (but not the Group Restructuring). The Purchaser shall indemnify the Vendors on demand against any liability for that stamp duty (including fines, interest and penalties).

30. GOVERNING LAW

This Deed is governed by the laws of New South Wales. The parties submit to the non-exclusive jurisdiction of the courts exercising jurisdiction there.

31. THE PURCHASER'S GUARANTOR'S GUARANTEE

31.1 UNDERTAKING

In consideration of each of the Vendors and the Warrantor entering into this Deed at the request of the Purchaser's Guarantor, the Purchaser's Guarantor:

(a) unconditionally and irrevocably guarantees to each of the Vendors and the Warrantor on demand the due and punctual performance by the Purchaser of all its obligations under this Deed; and

(b) shall indemnify each of the Vendors and the Warrantor against each Claim incurred or suffered by or brought or made or recovered against any of the Vendors or the Warrantor in connection with any default or delay by the Purchaser in the due and punctual performance of its obligations under this Deed.

31.2 PRINCIPAL OBLIGATION

This Clause 31 shall:

(a) be a principal obligation of the Purchaser's Guarantor and shall not be treated as ancillary or collateral to any right or obligation;

(b) extend to cover this Deed as amended, varied or replaced, whether with or without the consent of the Purchaser's Guarantor; and

(c) be a continuing guarantee and indemnity and shall remain in full force and effect for so long as the Purchaser has any liability or obligation to any of the Vendors or the Warrantor and until all of those liabilities or obligations have been fully discharged.

31.3 NO WITHHOLDINGS

The Purchaser's Guarantor will make all payments which may be or become due under this Clause 31 free and clear and without deduction of any and all present and future taxes, duties, levies, imposts, deductions, charges and withholdings of Australia or any other country or jurisdiction. If the Purchaser's Guarantor is compelled by law to deduct any such tax, duty, levy, impost, deduction, charge or withholding it will pay to the Vendor or the Warrantor (as the case may be) such additional amounts as may be necessary so that the net payment of the amount due under this Clause 31 after that deduction shall be not less than the payment would have been had there been no deduction.

31.4 NO SET OFF

The Purchaser's Guarantor has no right to set off or otherwise deduct or withhold any moneys which it may be or become liable to pay to any of the Vendors or the Warrantor under this Clause 31 against any moneys which the Vendor, the Warrantor or any of their Related Bodies Corporate may be or become liable to pay to the Purchaser or the Purchaser's Guarantor whether under this Deed or otherwise.

32. SPECIAL INDEMNITY

(a) (PARTIES' INTENTION) It is the intention of the parties that:

(i) the provisions of this Clause 32 shall be applied so as to put the Indemnitees (as defined below) in the same position that would have existed had the Purchaser not purchased the IB Businesses and consummated the other transactions related thereto contemplated by this Deed;

(ii) if the Purchaser shall have received, not later than June 30, 2001, not less than $112 million in cash in accordance with the IB Deed, no Indemnitee shall be entitled to claim under this Clause 32 for any loss suffered by reason of diminution in value of the IB Businesses;

(iii) no payment shall be required under this Clause 32 until the Claim at the time in question (other than a claim for diminution in value) involves the obligation of immediate or imminent payment by the Indemnitee;

(iv) no Claim in respect of any diminution in value of the IB Businesses or of any asset or property thereof such as, without limitation, an IB Business trading loss in the ordinary course

of business, shall be covered by this Clause 32 unless and until an Indemnitee (as distinguished from the affected IB Businesses themselves) has incurred or suffered a Claim;

(v) the Indemnitees shall not be entitled to any double recovery in respect of any Claim or the circumstances giving rise to that Claim; and

(vi) the Indemnitees shall be protected fully from any Claim which is incurred or suffered by any Indemnitee at any time relating to or arising out of the IB Businesses,

and this Clause 32 shall be construed to give effect to these intentions.

(b) (INDEMNITY) From and after the date of this Deed, the Warrantor agrees unconditionally and irrevocably upon demand to pay and indemnify the Purchaser and (without duplication) each Purchaser Entity (other than the BTIB Companies) and their respective successors and assigns (collectively, the INDEMNITEES) in respect of any Claim of any kind whatsoever, including any Claim for diminution in value (whether direct or indirect, actual or contingent and howsoever and whenever arising and whether or not any person was, prior to the Completion Date, aware of the Claim or the circumstances giving rise to it) incurred or suffered by or brought or made or recovered against any Indemnitee:

(i) to the extent that it relates to the IB Businesses or results from any action taken or not taken by the IB Businesses or (any member of the Vendors' Group in relation to the IB), Businesses, including any acquisition, ownership, sale or other disposition, direct or indirect, of or by any member of the Group of all or any portion of the IB Businesses (including the entry by any member of the Group or any Indemnitee into any agreement, arrangement or understanding in relation to the IB Businesses), whether before or after the Completion Date, including any Claim incurred or suffered as a result of any breach of warranty under any agreement entered into pursuant to clause 2.1 of the IB Deed; or

(ii) relating to any Claim by a Public Authority in connection with Vendors' sale of the Sale Shares,

PROVIDED THAT:

(A) this Clause 32(b) shall not relieve any Indemnitee from performance under the terms of any written contractual obligation (including any obligation to pay money) arising under any Transaction Document, nor shall the existence of any such contractual obligation relieve the Warrantor of its obligations under this

Clause 32 in respect of any Claim (including any loss arising from diminution in value);

(B) in calculating any loss incurred or suffered by the Indemnitees, credit shall be given for all amounts or benefits received by the Indemnitees or by a BTIB Company (other than those amounts to which an Indemnitee is entitled under the IB Deed) to the extent to which such amounts relate to the BTIB Group or otherwise to the IB Businesses except to the extent to which such. amounts or benefits are applied to meet liabilities of the IB Businesses or paid to a member of the Deutsche Group pursuant to the IB Deed;

(C) Clause 8.6(e) shall apply to this Clause 32 as if it were a Warranty;

(D) the amount to be indemnified pursuant to this Clause in respect of a Claim shall equal the amount of the Claim plus any additional amount such that the Indemnitee will be made whole in respect the Claim in question on an after tax basis; and

(E) the Warrantor and each Indemnitee shall act reasonably in relation to any circumstance which could give rise to a claim under this Clause 32.

(c) (PRINCIPAL OBLIGATION) Clause 32(b) shall:

(i) be a principal obligation of the Warrantor and shall not be treated as ancillary or collateral to any right or obligation;

(ii) be a continuing indemnity and shall remain in full force and effect without any limit as to time; and

(iii) subject to Clause 32(a), be construed broadly in favour of Indemnitees.

The rights of the Indemnitees under this Clause 32 shall not be limited or restricted by any other provision of this Deed, the IB Deed or any other Transaction Document and, without limitation, shall not be subject to any maximum or "cap", deductible or threshold, or any other similar limitation provision.

(d) (NO WITHHOLDINGS) The Warrantor will make all payments which may be or become due under Clause 32(b) free and clear and without deduction of any and all present and future Taxes, duties, levies, imposts, deductions, charges and withholdings of Australia or any other country or jurisdiction. If the Warrantor is compelled by law to deduct any such Tax, duty, levy, impost, deduction, charge or withholding it will pay to the Indemnitees (as the case may be) such additional amounts as may be necessary so that the net payment of

the amount due under Clause 32(b) after that deduction is not less than the payment would have been had there been no deduction.

(e) (NO SET OFF) Neither the Warrantor nor any member of the Vendors' Group shall set off or otherwise deduct or withhold any moneys which it may be or become liable to pay to an Indemnitee under this Clause 32 against any moneys which the Indemnitee may be or become liable to pay to the Warrantor or any of the Vendors or any other member of Vendors' Group or the Vendors' Guarantor whether under this Deed or otherwise.

SCHEDULE 1

SHARES AND BUSINESSES

PART I

COLUMN 1: VENDOR	COLUMN 2: COMPANY IN WHICH SALE SHARES ARE HELD	COLUMN 3: NO. OF SALE SHARES	COLUMN 4: PURCHASE PRICE	COLUMN 5: PERCENTAGE OF ISSUED CAPITAL
BTLLC	BT Investments (Australia) Limited (BTIA)	1,108 ordinary shares	$1,994,713,987	100%
BTNZ	BT Funds Management (NZ) Limited	14,488,336 ordinary shares	$89,839,683	100%
BTNZ	BT New Zealand Nominees Limited	212,643 ordinary shares	$160,317	100%
BTNZ	BT Portfolio Services (NZ) Limited	10,006,344 ordinary shares	$8,628,389	100%
BTID	BT Funds Management Asia Limited (BTFMA)	349,999 common shares	$4,834,695	99.9999%
BTNHK	BTFMA	1 common share	$1	0.0001%
BTFIC	BT Funds Management (Singapore) Limited (BTFMS)	100 Class A common shares	$701,125	100%
BTFIC	BTFMS	160 Class B common shares	$1,121,799	100%

PART II

COLUMN 1: VENDORS	COLUMN 2: BUSINESS	COLUMN 3: PURCHASE PRICE
BT Fund Managers (Ireland) Limited	Offshore FM Business (Ireland)	$1
BTI	Offshore FM Business (UK)	$1
BTC	Offshore FM Business (Alberta)	$1
BTC	Offshore FM Business (Common Fund)	$1
TOTAL PURCHASE PRICE: (PARTS I AND II)	A$2,100,000,000	

SCHEDULE 2

THE COMPANIES AND OTHER GROUP MEMBERS AS AT COMPLETION

PART I - THE COMPANIES

1. BTIA

(a) Issued capital: US$1,108 divided into 1,108 ordinary shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares
BTLLC	Common	1,108

(c) Beneficial owner of shares and number of shares owned:

Beneficial owner	Class	No. of shares
BTLLC	Common	1,108

(d) Place of incorporation: Delaware, United States

(e) Registered office: 1209 Orange Street,
Wilmington, Delaware,
United States of America

(f) Nature of business: Holding Company

2. BT FUNDS MANAGEMENT (NZ) LIMITED

(a) Issued capital NZ$14,488,336 divided into 14,488,336 ordinary shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares
BTNZ	ordinary	14,488,336

(c) Beneficial owner of shares and number of shares owned:

Beneficial owner	Class	No. of shares
BTNZ	ordinary	14,488,336

(d) Place of incorporation: Auckland, New Zealand

(e) Registered office: Level 7
PriceWaterhouse Centre,
66 Wyndham Street,
Auckland, New Zealand

(f) Nature of business: Funds management/securities dealer

3. BT NEW ZEALAND NOMINEES LIMITED

(a) Issued capital:

NZ$212,643 divided into 212,643 ordinary shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares
BTNZ	ordinary	212,643

(c) Beneficial owner of shares and number of shares owned:

Beneficial owner	class	No. of shares
BTNZ	ordinary	212,643

(d) Place of incorporation: Auckland, New Zealand

(e) Registered office: Level 7
PriceWaterhouse Centre,
66 Wyndham Street,
Auckland, New Zealand

(f) Nature of business: Custody

4. BT PORTFOLIO SERVICES (NZ) LIMITED

(a) Issued capital:

NZ$10,006,344 divided into 10,006,344 ordinary shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares.
BTNZ	ordinary	10,006,344

(c) Beneficial owner of shares and number of shares owned

Beneficial owner	Class	No. of shares
BTNZ	ordinary	10,006,344

(d) Place of incorporation: Auckland, New Zealand

(e) Registered office: Level 7
PriceWaterhouse Centre,
66 Wyndham Street,
Auckland, New Zealand

(f) Nature of business: Registry Management

5. BTFMA

(a) Issued capital:

US$350,000 divided into 350,000 common shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares
BTID	common	349,999
BTNHK	common	1

(c) Beneficial owner of shares and number of shares owned:

Beneficial owner	Class	No. of shares
BTID	common	349,999
BTID	common	1

(d) Place of incorporation: Victoria, Hong Kong

(e) Registered office: 36/F Two Pacific Place,
88 Queensway, Victoria,
Hong Kong

(f) Nature of business: Funds Management

6. BTFMS

(a) Issued capital S$260 divided into 100 Class A common shares and 160 Class B common shares each fully paid

(b) Registered holders of shares and class and number of shares held:

Registered holder	Class	No. of shares
BTFIC	Class A Common	100
BTFIC	Class B Common	160

(c) Beneficial owner of shares and number of shares owned:

Beneficial owner	Class	No. of shares
BTFIC	Class A Common	100
BTFIC	Class B Common	160

(d) Place of incorporation: Singapore

(e) Registered office: 6 Temasek Boulevard,
#23-03 Suntec Tower 4,
Singapore 038986

(f) Nature of business: Funds management

PART II - SUBSIDIARIES

PART IIA

NAME OF COMPANY	% BUSINESS
BT IB Holdings Pty Limited	100.00
Bankers Trust Australia Limited	100.00
Airport Motorway Infrastructure No. 1 Limited	100.00
BT Australia (H.K.) Financial Services Limited	100.00
BT Australia Securities Pty Limited	100.00
BT IB Limited	100.00
BT Structured Equities Pty Limited	100.00
BT Australia Limited	100.00
Aldisa Nominees Pty Limited	100.00
Bankers Trust Life Limited	100.00
Barvarde Pty Limited	100.00
Bavian Pty Limited	100.00
Bendalba Pty Limited	100.00
Bittoorong Pty Limited	100.00
BT (Queensland) Pty Limited	100.00
BT Alex. Brown Australia Limited	100.00
BT Structured Equities Pty Limited	100.00
Buttonwood Nominees Pty Limited	100.00
Nanway Nominees Pty Limited	100.00
Upmill Nominees Pty Limited	100.00
Woodross Nominees Pty Limited	100.00
BT Australia Corporate Services Pty Limited	100.00
BT Finance Pty Limited	100.00
BT Nominees Pty Limited	100.00
Chifley Services Pty Limited	100.00
BT Australia (HK) Limited	100.00
BT Pacific Management Limited	100.00
BT Capital Markets Nominees Pty Limited	100.00
BT Corporate Finance Limited	100.00
BT Funds Management (International) Limited	100.00
BT Funds Management Limited	100.00
BT Tactical Asset Management Pty Limited	100.00
BT Infrastructure Pty Limited	100.00
BT Lease Management Pty Limited	100.00
*BT Life Nominees Pty Limited	100.00
BT Management Services Pty Limited	100.00
BT Portfolio Services Limited	100.00
BT Custodial Services Pty Limited	100.00
BT Custodians Limited	100.00
Dellarak Pty Limited	100.00
BT Finance & Investments Pty Limited	100.00
National Registry Services Pty Limited	100.00
National Registry Services (WA) Pty Limited	100.00

BT Properties Pty Limited	100.00
BT Risk Management Advisory Pty Limited	100.00
BT Securities Limited	100.00
BT Securitisation Management Pty Limited	100.00
BT Technology Pty Limited	100.00
Cazinon Pty Limited	100.00
Cemasta Pty Limited	100.00
Cenford Pty Limited	100.00
Channar Investment Nominee Pty Limited	100.00
Pandrew Pty Limited	100.00
Colmoro Pty Limited	100.00
CrownLease Pty Limited	100.00
Deccand Pty Limited	100.00
Deline Pty Limited	100.00
Dentire Pty Limited	100.00
Erech Pty Limited	100.00
Gemata Pty Limited	100.00
Graldon Pty Limited	100.00
Infrastructure Investments No 1 Pty Limited	100.00
Infrastructure Investment No 2 Limited	100.00
Kedgeree Pty Limited	100.00
Kepile Pty Limited	100.00
Mequab Pty Limited	100.00
Mulcair Pty Limited	100.00
Oniston Pty Limited	100.00
Penderlyn Pty Limited	100.00
Pokrova Pty Limited	100.00
*Portland Investments A Pty Limited	100.00
*Portland Investments B Pty Limited	100.00
*Portland Investments C Pty Limited	100.00
Rawpindi Pty Limited	100.00
Rugarno Pty Limited	100.00
Sanlucar Pty Limited	100.00
Stenquab Pty Limited	100.00
Talamba Pty Limited	100.00
Taralie Pty Limited	100.00
Tecsal Pty Limited	100.00
Vanne Pty Limited	100.00
Wuxta Pty Limited	100.00
BT Science Holdings Limited	100.00
Aluminium Casting Pty Limited	100.00
Anti-Asthma R & D Pty Ltd	100.00
BT Computer Leasing Pty Limited	100.00
BT Project Finance Pty Limited	100.00
BT R&D No 1 Pty Limited	100.00
BT R&D No 7 Pty Limited	100.00
Colanera Pty Limited	100.00
Ensenaba Pty Limited	100.00
Garachine Pty Limited	100.00

Himakin Pty Ltd	100.00
Kayoota Pty Limited	100.00
Sucrafeed No 1 Pty Limited	100.00
Sucrafeed No 2 Pty Limited	100.00
Santorini One Pty Limited	100.00
Structured Prime Asset Receivables (SPARS) No. 1 Limited	100.00

PART IIB. BTIB COMPANIES

	% OWNED
BT IB Holdings Pty Limited	100.00
Airport Motorway Infrastructure No. 1 Limited	100.00
BT Australia (H-K) Financial Services Limited	100.00
BT Australia Securities Pty Limited	100.00
BT IB Limited	100.00
BT Structured Equities Pty Limited	100.00
Aldisa Nominees Pty Limited	100.00
Barvarde Pty Limited	100.00
Bavian Pty Limited	100.00
Bendalba Pty Limited	100.00
Bittoorong Pty Limited	100.00
BT Alex. Brown Australia Limited	100.00
Buttonwood Nominees Pty Limited	100.00
Nanway Nominees Pty Limited	100.00
Upmill Nominees Pty Limited	100.00
Woodross Nominees Pty Limited	100.00
BT Australia (HK) Limited	100.00
BT Pacific Management Limited	100.00
BT Capital Markets Nominees Pty Limited	100.00
BT Corporate Finance Limited	100.00
BT Infrastructure Pty Limited	100.00
BT Lease Management Pty Limited	100.00
BT Management Services Pty Limited	100.00
BT Properties Pty Limited	100.00
BT Risk Management Advisory Pty Limited	100.00
BT Securitisation Management Pty Limited	100.00
BT Technology Pty Limited	100.00
Cazinon Pty Limited	100.00
Cemasta Pty Limited	100.00
Cenford Pty Limited	100.00
Channar Investment Nominee Pty Limited	100.00
Pandrew Pty Limited	100.00
Colmoro Pty Limited	100.00
CrownLease Pty Limited	100.00
Deccand Pty Limited	100.00
Deline Pty Limited	100.00
Dentire Pty Limited	100.00
Erech Pty Limited	100.00
Gemata Pty Limited	100.00
Graldon Pty Limited	100.00

Infrastructure Investments No 1 Pty Limited	100.00
Infrastructure Investment No 2 Limited	100.00
Kedgeree Pty Limited	100.00
Kepile Pty Limited	100.00
Mequab Pty Limited	100.00
Mulcair Pty Limited	100.00
Penderlyn Pty Limited	100.00
Pokrova Pty Limited	100.00
*Portland Investments A Pty Limited	100.00
*Portland Investments B Pty Limited	100.00
*Portland Investments C Pty Limited	100.00
Rawpindi Pty Limited	100.00
Rugarno Pty Limited	100.00
Sanlucar Pty Limited	100.00
Stenquab Pty Limited	100.00
Talamba Pty Limited	100.00
Taralie Pty Limited	100.00
Tecsal Pty Limited	100.00
Vanne Pty Limited	100.00
Wuxta Pty Limited	100.00
BT Science Holdings Limited	100.00
Aluminum Casting Pty Limited	100.00
Anti-Asthma R & D Pty Ltd	100.00
BT Computer Leasing Pty Limited	100.00
BT Project Finance Pty Limited	100.00
BT R&D No 1 Pty Limited	100.00
BT R&D No 7 Pty Limited	100.00
Colanera Pty Limited	100.00
Ensenaba Pty Limited	100.00
Garachine Pty Limited	100.00
Himakin Pty Ltd	100.00
Kayoota Pty Limited	100.00
Sucrafeed No 1 Pty Limited	100.00
Sucrafeed No 2 Pty Limited	100.00
Santorini One Pty Limited	100.00
Structured Prime Asset Receivables (SPARS) No. 1 Limited	100.00

PART IIC. FM COMPANIES

Bankers Trust Australia Limited	100.00
BT Australia Limited	100.00
Bankers Trust Life Limited	100.00
BT (Queensland) Pty Limited	100.00
BT Australia Corporate Services Pty Limited	100.00
BT Finance Pty Limited	100.00
BT Nominees Pty Limited	100.00

Chifley Services Pty Limited	100.00
BT Funds Management (International) Limited	100.00
BT Funds Management Limited	100.00
BT Tactical Asset Management Pty Limited	100.00
* BT Life Nominees Pty Limited	100.00
BT Portfolio Services Limited	100.00
BT Custodial Services Pty Limited	100.00
BT Custodians Limited	100.00
Dellarak Pty Limited	100.00
BT Finance & Investments Pty Limited	100.00
National Registry Services Pty Limited	100.00
National Registry Services (WA) Pty Limited	100.00
BT Securities Limited	100.00
Oniston Pty Limited	100.00

(*) In liquidation

SCHEDULE 3

GROUP RESTRUCTURING

The required pre-Completion group restructuring steps are as set out below.

(a) The ordinary shares in BTCO are transferred from BT Investments (Australia) Limited to BTFIC for their issue value (which the Vendors believe to be not materially different from its market value) and before this transfer, the redeemable preference shares held by BT Investments (Australia) Limited in BTCO shall be redeemed.

(b) On or before the Completion Date, each subsidiary company of BTAL shall, to the extent permitted by law, declare and pay such dividends, which may be franked to an extent which does not exceed the maximum required franking amount (as that term is defined in section 160AQE of the 1936 Act), as may be required to enable BTAL to declare and pay the dividends referred to in paragraph (c).

(c) Before the Completion Date, BTAL will declare, so as to create an actual indebtedness in favour of BT Investments (Australia) Limited, two dividends in favour of BT Investments (Australia) Limited as follows:

(i) to the maximum extent permitted by law, a dividend in an amount not exceeding A$1.1 billion, to be paid on the Completion Date; and

(ii) to the maximum extent permitted by law, a dividend payable on the delivery of the Completion Statement and the Vendors' Accountants Report as provided for in Clause 10.2 equal to the aggregate of:

(A) the amount necessary to reduce the Net Assets as disclosed in the Completion Statement to a figure of $382.8 million; and

(B) an interest factor of 5% per annum from the Completion Date to the date of payment,

such dividends to be franked to an extent which does not exceed the maximum required franking amount (as that term is defined in section 160AQE of the 1936 Act).

(d) BT Investments (Australia) Limited will declare before the Completion Date and having a record date before the Completion Date so as to create an actual indebtedness in favour of BT Investments (Australia) LLC, two dividends in favour of BT Investments (Australia) LLC as follows:

(i) a dividend in an amount equal to the dividend declared in paragraph (c)(i), to be paid to BT Investments (Australia) LLC on the Completion Date; and

(ii) a dividend in an amount calculated on the basis set out in paragraph (c)(ii), which dividend shall be payable to BT Investments (Australia) LLC on the date of receipt by BT Investments (Australia) Limited of the dividend to be paid under paragraph (c)(ii).

SCHEDULE 4

WARRANTIES AND OTHER OBLIGATIONS

PART I - WARRANTOR'S WARRANTIES

1. SALE SHARES, POWER AND AUTHORITY

1.1 Each Vendor is the registered holder of the Sale Shares appearing opposite its name in Schedule 1.

1.2 Part I of Schedule 2 sets out the beneficial owner of the Sale Shares.

1.3 The Sale Shares are all fully paid and comprise the whole of the issued ordinary share capital of the Companies. There are no commitments in place under which a Company is obliged at any time to issue any shares or other securities convertible into shares.

1.4 There are no Encumbrances over or affecting the Sale Shares.

1.5 Each of the Vendors, the Vendors' Guarantor and the Warrantor has the power to enter into and perform this Deed and the Transaction Documents to which it is a party and has obtained all necessary consents to enable it to do so. This Deed and each of the Transaction Documents has been duly executed by each of the Vendors, the Vendors' Guarantor and the Warrantor who is a party to any such document and is a legal, valid and binding agreement enforceable against it in accordance with the terms of this Deed or such document, as appropriate.

1.6 The entry into and performance of this Deed by each of the Vendors, the Vendors' Guarantor and the Warrantor does not constitute a breach of any obligation (including any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it is bound.

1.7 No meeting has been convened or resolution proposed, or petition presented, and no order has been made, for the winding-up of a Vendor, the Vendors' Guarantor and or the Warrantor. No voluntary arrangement has been proposed or reached with any creditors of a Vendor, the Vendors' Guarantor and or the Warrantor. Each of the Vendors, the Vendors' Guarantor and the Warrantor is able to pay its debts as and when they fall due.

2. GROUP MEMBERS AND OTHER COMPANIES

2.1 Each Group Member:

(a) is duly incorporated and accurately described in Schedules 1 and 2;

(b) has full corporate power to own its properties, assets and business and to carry on its business as it is now conducted; and

(c) has done everything necessary to do business lawfully in all jurisdictions in which its business is carried on.

2.2 There are no Encumbrances over or affecting any of the shares in any Group Member.

2.3 No meeting has been convened or resolution proposed, or petition or other process presented or threatened, and no order has been made, for the winding-up of a Group Member. No distress, execution or other similar order or process has been levied on any of the property or assets of a Group Member. No voluntary arrangement has been proposed or reached with any creditors of a Group Member. No receiver, receiver and manager or other controller (as defined in the Corporations Law), administrator or other similar officer has been appointed, or is threatened or expected to be appointed, in relation to a Group Member or over any part of the assets of a Group Member. There are no circumstances justifying such an appointment. Each Group Member is able to pay its debts as and when they fall due.

2.4 No writ of execution has issued against a Group Member or the property of a Group Member and, as far as the Warrantor is aware, there are no circumstances justifying a writ.

2.5 On the Completion Date, BTAL shall be the registered and beneficial owner free and clear of all Encumbrances of 30% of the fully paid issued capital in:

(a) the Malaysian Company; and

(b) Commerce Asset Fund Managers Sdn Bhd, subject to Clause 2.9

2.6 On the Completion Date, BT Funds Management (International) Limited shall be the registered and beneficial owner free and clear of all Encumbrances of 25% of the issued shares in Thai Capital Management Co., Limited.

3. STATUTORY ACCOUNTS, ACCOUNTS AND COMPLETION STATEMENT

3.1 The Statutory Accounts have been prepared in accordance with:

(a) the Corporations Law, including:

(i) giving a true and fair view of BTAL's and consolidated entities' financial position as at the Balance Date and of their performance for the year ended on that date; and

(ii) complying with accounting standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

3.2 The Accounts have been prepared in accordance with the Accounting Principles.

3.3 The Completion Statement will:

(a) be prepared; and

(b) present fairly the assets and liabilities of the Group and the Offshore FM Businesses as at the Completion Date,

in accordance with the Accounting Principles.

3.4 The Records taken as whole (but not including the Accounts or Completion Statement), present fairly the trading transactions, financial and contractual position, assets and liabilities of the Group Members and the Business in all material respects.

3.4 The Accounts insofar as they relate to the FM Businesses present fairly, in all material respects in accordance with the Accounting Principles, the assets and liabilities of the FM Businesses as at the Balance Date.

3.5 On the Completion Date, the FM Businesses will have no material liabilities, except as and to the extent accrued or reserved against as liabilities and provided for in the Completion Statement.

4. REAL PROPERTY

4.1 (REAL PROPERTY) The Real Property comprises all the freehold and leasehold land and premises owned, used or occupied by any Group Member (except " for real property held by a Group Member as trustee or custodian on behalf of a collective investment scheme or otherwise on behalf of others in the ordinary and usual course of its business). No Group Member has any freehold or leasehold interest in land except for the Real Property.

4.2 (OCCUPATION) The relevant Group Member has exclusive occupation and quiet enjoyment of the relevant item of Real Property.

5. EMPLOYEES

5.1 (DISCLOSURE MATERIAL) The information in the Disclosure Material with respect to:

(a) the position of the officers and employees of each Group Member;

(b) the employment terms (including incentives) of the officers and employees of each Group Member; and

(c) the period of service of the officers and employees of each Group Member and accrued long service leave and annual leave entitlements,

is accurate in all material respects as at the date shown in the Disclosure Material.

5.2 (PLANS AND POLICIES) The Plans and Policies referred to in Clause 4(d) and the Specific Employee Disclosures, contain the full terms as at the date of the Disclosure Letter of the severance and redundancy entitlements of all Employees other than those which arise under statute or are implied by general law.

5.3 (EQUITY PLANS) All plans under which Employees have, or may have been provided with shares, other forms of equity, rights of conversion into equity,

or rights in substitution therefor have been terminated and all amounts payable in relation thereto have been paid or will be fully provided for in the Completion Statement.

5.4 (SPECIFIC EMPLOYEE DISCLOSURES) The Specific Employee Disclosures are accurate in all material respects.

6. ASSETS

6.1 Upon Completion the Group will own, or have the right (on terms no less favourable to the Group than the terms applicable as at the date of this Deed) to use all of the properties and assets which, together with the assets and services to be provided pursuant to the Shared Services Agreements, are all of the material properties and assets used to conduct the FM Businesses as historically conducted.

6.2 All material licences, consents, permits and authorities (public and private) have been obtained by each of the Group Members to enable it to carry on the Business in the places and in the manner in which such Business is now carried on by it and all such licences, consents, permits and authorities are valid and subsisting.

6.3 The Warrantor does not know of any factor which is likely to prejudice the continuance or renewal of any license, consent, permission authority or permit referred to in Warranty 6.2.

6.4 That:

(a) BTC is the registered proprietor in Australia of the registrations of the Trade Marks (the REGISTRATIONS);

(b) each Registration is valid and subsisting and there is no matter, fact or circumstance which would render void or voidable nor otherwise susceptible to removal, the registration of any Registration on any grounds (including under section 92(4)(a) of the Trade Marks Act 1995 (Cth));

(c) there is no restriction, limitation, outstanding encumbrance or other matter preventing BTC from assigning any of the Trade Marks and the Registration to the Assignee (as defined in the Deed of Assignment of Trade Marks); and

(d) in respect of each Trade Mark, the use of that mark by the Assignee upon or in relation to the goods or services in respect of which the mark is registered will not infringe the rights of any other person and will not give rise to an obligation on the part of the Assignee to pay compensation or a royalty to any other person.

7. CONDUCT OF BUSINESS

Except for:

(a) any impacts of either the merger between the Warrantor and BTC or the announcement by the Warrantor of the intended disposal of the Business; and

(b) the implementation of the Stewardship Document,

the Business has been conducted in all material respects in the ordinary and usual course since the Balance Date.

8. DISCLOSURE MATERIAL

The Disclosure Material, taken as a whole, is complete and accurate in all material respects and includes all the information which a prospective purchaser of the FM Businesses in the position of the Purchaser would reasonably require for the purpose of making a decision whether or not to acquire the FM Businesses. For the purposes of this Warranty, a person in the position of the Purchaser is to be taken as having taken, in full the opportunity referred to in Clause 2 of Part III of this Schedule and to have obtained all professional advice from the Advisers used by the Purchaser which a prudent purchaser could reasonably be expected to have sought.

9. LITIGATION AND AUTHORISATIONS

9.1 There is no material litigation against a Group Member which is current, pending or threatened nor of any circumstance, act or omission which is likely to give rise to any material litigation against a Group Member including litigation arising out of any acts or omissions of Group Members in acting in any capacity in relation to any superannuation trust, prescribed interest undertaking or managed investment scheme, arising out of any breach of any client mandates or arising out of any product or service provided by such Group Member.

9.2 Each Group Member:

(a) holds all necessary Authorisations necessary for the lawful conduct of its Business; and

(b) has, subject to exemptions or waivers, conducted its Business materially in accordance with the conditions imposed by its Authorisations.

10. TRUSTS

10.1 A Group Member is the trustee, manager or single responsible entity (SRE) of all of the trusts and managed investments schemes listed in Schedule 13 (each a TRUST).

10.2 Each of:

(a) the trust deed of each Trust; and

(b) the supplemental deeds amending those trust deeds; and

(c) the deeds effecting a retirement or appointment of a trustee, manager or SRE of those Trusts;

has been validly executed and, to the extent required by law, duly approved by the Australian Securities and Investments Commission (or its predecessors or delegates).

10.3 Except as required or contemplated by .MIA Transition, no circumstance has occurred or is proposed in relation to a Group Member or any Trust that will or may give rise to the Group Member ceasing to be the trustee, manager or SRE of the Trust.

10.4 Each Group Member has complied in all material respects with:

(a) all of the applicable provisions included or taken to be included in the trust deeds of all Trusts; and

(b) the Corporations Law and other applicable laws,

while acting as the trustee, manager or SRE of the Trusts.

10.5 Except as required or contemplated by MIA Transition or as required by the Listing Rules of the Australian Stock Exchange to approve a transaction relating to a Trust, no Group Member proposes to hold a meeting of unitholders of any Trust of which it is trustee, manager or SRE and the Warrantor is not aware of any proposal to requisition such a meeting.

10.6 The Warrantor does not know of any circumstance giving rise to an existing or potential loss by a Group Member of its right of indemnity from a Trust.

11. YEAR 2000 ISSUE

The Warrantor and the Vendors warrant that the Group Members will continue to carry out the Vendors' Group Year 2000 Issues compliance program as identified in the Disclosure Material with all reasonable due diligence up to the Completion Date.

PART II - TAX WARRANTIES

12. TAX WARRANTIES

12.1 (TAX PROVISION AND ACCOUNTS) The Completion Statement contains Tax Provisions, reserves, accruals or allowances adequate to cover Taxes payable for or in respect of each Group Member for all periods up to the Completion Date. For the purposes of this Warranty 12.1, a Tax payable for or in respect of each Group Member includes Taxes for which the Group Member becomes liable by reason of its membership or inclusion in any, consolidated or combined tax group or Taxes for which such Group Member may have a liability by reason of any tax sharing agreement or other contractual obligation.

12.2 (DEDUCTIONS) Each Group Member has deducted all Tax required to be deducted from any payments made by it. When necessary, the relevant Group Member has accounted for or remitted on a timely basis that Tax in accordance with relevant law.

12.3 (PAYMENT OF TAX) All Taxes which have been or were deemed to have been assessed or imposed on any Group Member, or have been required to be withheld from any payment made by any Group Member to another person:

(a) which have become due and payable, have been paid by the due date for payment by that Group Member; and

(b) which are not yet payable but become payable before the Completion Date, shall be paid by the due date.

12.4 (RETURNS ETC.) All necessary returns:

(a) have been submitted by each Group Member to each relevant Taxation Authority in respect of Taxes for or in respect of that Group Member for all periods up to the date of this Deed; and

(b) will continue to be submitted when due in respect of periods after the date of this Deed until the Completion Date in respect of those later periods.

12.5 (FRANKING AND CAPITAL) Each Group Member:

(a) maintains and has retained for the period required by law, accurate records. of franking credits and franking debits (as defined in the Tax Act) in respect of its current and earlier accounting periods;

(b) has franked to no less than the required franking amount (as provided for in section 160AQE of the Tax Act) any dividend declared or paid since the Balance Date;

(c) shall have a Franking Account at 30 June 1999 and at the Completion Date the balance in which shall not be less than zero; and

(d) will not have a tainted share capital account (as defined in the Tax Act) as at the Completion Date.

12.6 (INVESTIGATIONS AND DISPUTES) Neither the Warrantor nor any Group Member is aware that the Australian Commissioner of Taxation or any other Taxation Authority is at present conducting, or proposing to conduct, any investigation into all or any part of the tax affairs of any Group Member and there is no unresolved dispute with any Taxation Authority.

12.7 (GROUP LOSS TRANSFERS) As far as the Warrantor is aware, any loss which has been transferred to or by any Group Member was validly transferred for the purposes of section 80G of the 1936 Act or of Division 170 of the 1997 Act or any corresponding provision or provision to a similar effect under the applicable law of any foreign jurisdiction.

12.8 (RECORDS) As far as the Warrantor is aware, each Group Member has retained for the period required by law all records required to be kept pursuant to any Tax Law.

12.9 (TAX CLASSIFICATION OF BTIA FOR US FEDERAL INCOME TAX PURPOSES) For US federal income tax purposes, BTIA is an association taxable as a corporation.

12.10 (STAMP DUTY) No stamp duty liability will be triggered in respect of transactions entered into prior to the date of this Deed as a consequence of the execution of: the Deed; of the other Transaction Documents; of any instruments entered into under the Deed or the other Transaction Documents.

12.11 (DEGROUPING) Section 160ZZOA of the 1936 Act would not apply to deem a disposal of an asset by a Group Member, and section 104475 of the 1997 Act will not deem a CGT event to happen in relation to a Group Member, as a result of entry into a Transaction Document by the Purchaser.

12.12 (GROUP MEMBERSHIP) BTIA and the Group Members listed as 100% subsidiaries of BTIA in Part II of Schedule 2 will be members of the same wholly owned group as defined in Subdivision 975-W of the 1997 Act at the Completion Date.

PART III - PURCHASER'S AND THE PURCHASER'S GUARANTOR WARRANTIES

1. POWER AND AUTHORITY

1.1 (POWER AND AUTHORITY) The Purchaser and the Purchaser's Guarantor have the power and authority to execute and exchange this Deed and perform and observe all its terms. This Deed has been duly executed by the Purchaser and the Purchaser's Guarantor and is a legal, valid and binding agreement of the Purchaser and the Purchaser's Guarantor enforceable against them in accordance with the terms of this Deed.

1.2 (SOLVENCY) No step has been taken in relation to any of the Purchaser or Purchaser's Guarantor or their respective Related Bodies Corporate to wind it up, appoint a controller or administrator, seize or take possession of any of their assets or make an arrangement, compromise or composition with any of their creditors.

2. DISCLOSURE MATERIAL

The Purchaser and the Purchaser's Guarantor have been given the opportunity by the Vendors to review the Disclosure Material, have taken that opportunity and have independently and without the benefit of any inducement, representations or warranty (other than the Warranties provided in Parts I and II of this Schedule) from any member of the Vendors' Group or the Deutsche Group determined to enter into this Deed. The Purchaser and the Purchaser's Guarantor have not reviewed the IB Disclosure Material.

PART IV - CONTINUING OBLIGATIONS OF PURCHASER

3. OBLIGATION TO NOTIFY

Irrespective of whether a Claim arises, the Purchaser shall notify the Warrantor in writing of any notice or commencement of any audit or investigation or exercise of powers under section 263 or 264 of the Tax Act or dispute with any Taxation Authority in relation to the Tax affairs of a Group Member, within 3 business days of receipt of such notice or of such commencement (whichever occurs first), which arises in relation to the transactions contemplated by the Transaction Documents or any Group Member in relation to any period up to the end of the tax year in which the Completion Date occurs.

4. COMPLETION YEAR TAX RETURN

The Purchaser shall give the Vendor the opportunity to review any income tax return to be filed by any Group Member in respect of the period up to the end of the Tax Year under the Tax Act in which the Completion Date occurs at least 15 working days prior to them being filed, and give bona fide and reasonable consideration to any of the Vendor's comments thereon and requests in relation thereto, and once filed, provide the Vendor with a copy of such returns as filed.

5. PRESERVATION

The Purchaser shall not, without the approval of the Vendor (such approval not to be unreasonably withheld):

(a) amend, or permit the self amendment by the relevant Group Member of, any tax return lodged by a Group Member prior to the Completion Date;

(b) apply for any binding or non-binding advance opinion, determination or ruling in respect of any event which occurred prior to or on the Completion Date;

(c) do any other thing which, apart from the operation of any threshold under Clause 8.6(g), might reasonably lead to any Claim for breach of this Deed.

6. OTHER OBLIGATIONS

The Purchaser:

(a) shall not procure or cause the negation or modification of any election or choice made by, on behalf of, or in respect of a Group Member such that there is an increase in liability of the consolidated group of the Vendors' Guarantor for United States Taxes (or any

decrease in the amount of foreign tax credits of that consolidated group) in respect of the period up to and including the end of the Tax Year next ending after the Completion Date;

(b) shall make, at the Completion Date, a joint election with the Vendor's Guarantor, under Section 338(h)(10) of the Internal Revenue Code, to treat the sale of BTIA Shares as a sale of the assets of BTIA, which election shall be irrevocable;

(c) shall make, at the Completion Date, an election under Section 338(g) of the Internal Revenue Code to treat BTAL and all of its subsidiaries as having sold their assets for US Tax purposes, which election shall be irrevocable; and

(d) shall permit the lodgment of Ruling Requests by the Vendors or Warrantor (and at their cost) on behalf of such Group Members as may be nominated by them. The Ruling Requests shall be prepared having due regard to the maintenance of the good name, reputation and relationship with the Australian Taxation Office of each of the Purchaser, the Purchaser's Guarantor, the Group Members, the Vendors and the Warrantor, and in particular, to prevent any actual or perceived damage to such good name, reputation or relationship flowing from recent uninformed and inaccurate press coverage of this transaction. To facilitate the preparation and lodgment of the Ruling Requests the Purchaser shall grant or procure the grant of access to the materials and records of such Group Members as shall be necessary to lodge the Ruling Requests, subject always to the preservation of the confidentiality of those records to the same degree provided for in Clause 8.10(b)(viii) of this Deed. The Purchaser shall have a reasonable opportunity to review and comment promptly upon the Ruling Requests before they are lodged with the Australian Taxation Office and in this regard the Vendor or Warrantor will keep the Purchaser informed of the timing of lodgment of the Ruling Requests and the time available to the Purchaser to review and comment on the requests.

SCHEDULE 5

POWER OF ATTORNEY

DEED POLL dated 1999 by:

[*] LIMITED (ACN [*] incorporated in [*] of [*] (the Principal)

RECITES that the Principal has transferred to [*] (ACN [*] (the PURCHASER) the full beneficial interest in [*] ordinary shares of $[*] each fully paid (the SHARES) in [*] [Limited] (the COMPANY) of which the Principal is the registered holder.

APPOINTS

1. APPOINTMENT AND AUTHORITY

In consideration of the Purchaser purchasing the Shares the Principal appoints each of the directors for the time being of the Purchaser (each an Attorney) severally as the attorney of the Principal with authority to exercise all rights attaching to the Shares including, without limitation, the rights to:

(a) receive notices of and attend and vote at all meetings of the members of the Company;

(b) consent to short notice and execute all instruments of proxy or other documents for the purpose of enabling the Purchaser to attend and vote at any such meeting; and

(c) appoint and remove directors and alternate directors of the Company.

2. RATIFICATION

The Principal will ratify everything done or caused to be done by an attorney under this Power of Attorney.

3. TERM

This Power of Attorney shall terminate upon the registration of the Purchaser as the holder of the Shares. It may not be revoked by the Principal.

EXECUTED as a Deed,

[*] LIMITED)
)

Signature	Signature
Print name	Print name
Office held	Office held

SCHEDULE 6

COMPLETION STATEMENT

The Completion Statement shall be in such form as the Vendors' Accountants deem appropriate for the purpose, but in any event will contain summary schedules as per the attached templates.

EXHIBIT 1

EXHIBIT TO SCHEDULE 6 OF THE SHARE SALE DEED

TEMPLATE FOR COMPLETION STATEMENT OF BTAG

		BTFM (including Offshore FM Businesses)(1)	BTIB (excluding Offshore IB Businesses)	Surplus Capital	BTAG
SCHEDULE 20010	Cash & Due From Banks:				
SCHEDULE 20030	IB Deposits With Banks				
SCHEDULE 20055	Securities Purchased Under Resale Agreement				
SCHEDULE 20070	IB & NIB Trading Account Assets				
SCHEDULE 20105	Securities Available For Sale				
SCHEDULE 20110	Investment In Consol Sub				
SCHEDULE 20130	Loans & Leases Intercompany				
SCHEDULE 20131	Gross Loans & Lease Financing				
SCHEDULE 20132	Overdrafts				
SCHEDULE 20160	Unearned Income				
SCHEDULE 20180	Allowance For Credit Loss				
SCHEDULE 20210	Premises & Equipment Net				
SCHEDULE 20230	Bankers' Acceptances				
SCHEDULE 20240	Accrued Int Rec, A/C Rec & Rec On Sec Transactions				
SCHEDULE 20270	Goodwill				
SCHEDULE 20270	Other Assets				
	Total Assets				
SCHEDULE 20360	Interest Bearing Deposits				
SCHEDULE 20390	IB & NIB Trading Account Liabilities				
SCHEDULE 20395	Sec Sold Under Repurchase Agreements				
SCHEDULE 20400	Other Short Term Borrowings				
SCHEDULE 20450	Accrued Expenses & Accrued Interest Payable				
SCHEDULE 20470	Other Liabilities				
SCHEDULE 20510	Long Term Debt				
	Total Liabilities				
	Net Assets	95,500,000	287,300,000	--	382,800,000

Note:

(1) Refer Exhibit 2

EXHIBIT 2

TEMPLATE FOR COMPLETION STATEMENT OF BTAG

COMPOSITION OF BTFM BALANCE SHEET

		BT Funds Management within BTAL Group	BT Funds Management Offshore Businesses(1)	Total BTFM
SCHEDULE 20010	Cash & Due From Banks:			
SCHEDULE 20030	IB Deposits With Banks			
SCHEDULE 20055	Securities Purchased Under Resale Agreement			
SCHEDULE 20070	IB & NIB Trading Account Assets			
SCHEDULE 20105	Securities Available For Sale			
SCHEDULE 20110	Investment In Consol Sub			
SCHEDULE 20130	Loans & Leases Intercompany			
SCHEDULE 20131	Gross Loans & Lease Financing			
SCHEDULE 20132	Overdrafts			
SCHEDULE 20160	Unearned Income			
SCHEDULE 20180	Allowance For Credit Loss			
SCHEDULE 20210	Premises & Equipment Net			
SCHEDULE 20230	Bankers' Acceptances			
SCHEDULE 20240	Accrued Int Rec, A/C Rec & Rec On Sec Transactions			
SCHEDULE 20270	Goodwill			
SCHEDULE 20270	Other Assets (Exhibit 2.1)			
	Total Assets			
SCHEDULE 20360	Interest Bearing Deposits			
SCHEDULE 20390	IB & NIB Trading Account Liabilities			
SCHEDULE 20395	Sec Sold Under Repurchase Agreements			
SCHEDULE 20400	Other Short Term Borrowings			
SCHEDULE 20450	Accrued Expenses & Accrued Interest Payable			
SCHEDULE 20470	Other Liabilities (Exhibit 2.1)			
SCHEDULE 20510	Long Term Debt			
	Total Liabilities			
	Net Assets			95,500,000

Note:

(1) Refer Exhibit 3

EXHIBIT 2.1

TEMPLATE FOR COMPLETION STATEMENT OF BTAG

COMPOSITION OF BTFM BALANCE SHEET

	BT Funds Management (extracted from BTAL Statutory Accounts)

Notes:

(1) Other assets include:

Management fees receivable (from BT managed funds)	
Related party management fees (Japan and US funds)	
Related party receivables	
Investment in Malaysian JV	
Trade debtors	
FITB	
Other	

(2) Other liabilities include:

Employee entitlements (allocated from Corporate)	
Accounts payable	
Interest received in advance	
Futures margin payable (overlay accounts)	
Commissions payable	
Related party liabilities	
Trade creditors	
Other liabilities	

EXHIBIT 3

TEMPLATE FOR COMPLETION STATEMENT OF BTAG

COMPOSITION OF BTFM OFFSHORE BUSINESSES

		BT New Zealand Nominees Limited	BT Portfolio Services (NZ) Limited	BT Funds Management (NZ) Limited	BT Funds Management Asia Limited
SCHEDULE 20010	Cash & Due From Banks:				
SCHEDULE 20030	IB Deposits With Banks				
SCHEDULE 20055	Securities Purchased Under Resale Agreement				
SCHEDULE 20070	IB & NIB Trading Account Assets				
SCHEDULE 20105	Securities Available For Sale				
SCHEDULE 20110	Investment In Consol Sub				
SCHEDULE 20130	Loans & Leases Intercompany				
SCHEDULE 20131	Gross Loans & Lease Financing				
SCHEDULE 20132	Overdrafts				
SCHEDULE 20160	Unearned Income				
SCHEDULE 20180	Allowance For Credit Loss				
SCHEDULE 20210	Premises & Equipment Net				
SCHEDULE 20230	Bankers' Acceptances				
SCHEDULE 20240	Accrued Int Rec, A/C Rec & Rec On Sec Transactions				
SCHEDULE 20270	Goodwill				
SCHEDULE 20270	Other Assets				
	Total Assets				
SCHEDULE 20360	Interest Bearing Deposits				
SCHEDULE 20390	IB & NIB Trading Account Liabilities				
SCHEDULE 20395	Sec Sold Under Repurchase Agreements				
SCHEDULE 20400	Other Short Term Borrowings				
SCHEDULE 20450	Accrued Expenses & Accrued Interest Payable				
SCHEDULE 20470	Other Liabilities				
SCHEDULE 20510	Long Term Debt				
	Total Liabilities				
	Net Assets				

Notes:

(1) Other assets include:

Trade debtors
Related party receivables
FITB
Other receivables

(2) Other liabilities include:

Trade creditors
Related party liabilities
Provision for employee entitlements
Other liabilities

		BT Funds Management (Singapore) Limited	25% Share Thai Capital Management Co Ltd	Offshore FM business (Ireland), Offshore FM business (UK)	BT Funds Management Offshore Businesses
SCHEDULE 20010	Cash & Due From Banks:				
SCHEDULE 20030	IB Deposits With Banks				
SCHEDULE 20055	Securities Purchased Under Resale Agreement				
SCHEDULE 20070	IB & NIB Trading Account Assets				
SCHEDULE 20105	Securities Available For Sale				
SCHEDULE 20110	Investment In Consol Sub				
SCHEDULE 20130	Loans & Leases Intercompany				
SCHEDULE 20131	Gross Loans & Lease Financing				
SCHEDULE 20132	Overdrafts				
SCHEDULE 20160	Unearned Income				
SCHEDULE 20180	Allowance For Credit Loss				
SCHEDULE 20210	Premises & Equipment Net				
SCHEDULE 20230	Bankers' Acceptances				
SCHEDULE 20240	Accrued Int Rec, A/C Rec & Rec On Sec Transactions				
SCHEDULE 20270	Goodwill				
SCHEDULE 20270	Other Assets				
	Total Assets				
SCHEDULE 20360	Interest Bearing Deposits				
SCHEDULE 20390	IB & NIB Trading Account Liabilities				
SCHEDULE 20395	Sec Sold Under Repurchase Agreements				
SCHEDULE 20400	Other Short Term Borrowings				
SCHEDULE 20450	Accrued Expenses & Accrued Interest Payable				
SCHEDULE 20470	Other Liabilities				
SCHEDULE 20510	Long Term Debt				
	Total Liabilities				

Net Assets

Notes:

(1) Other assets include:

Trade debtors
Related party receivables
FITB
Other receivables

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(2) Other liabilities include:

Trade creditors
Related party liabilities
Provision for employee entitlements
Other liabilities

SCHEDULE 7

ACCOUNTING PRINCIPLES

BANKERS TRUST AUSTRALIA GROUP
ACCOUNTING PRINCIPLES
AND BASIS OF PREPARATION OF THE ACCOUNTS
AND THE COMPLETION STATEMENT

1. PREPARATION OF ACCOUNTS AND COMPLETION STATEMENT

The Accounts have been prepared to represent the aggregate balance sheet position of the Group and the Offshore FM Businesses. In preparing the Accounts, information has been extracted from the audited statutory accounts and general ledgers of Group Members and other entities involved in carrying on the Business as at 31 December 1998.

In respect of legal entities which form part of the Group, the trial balances representing the legal entity (which form the basis of the audited accounts of the entity) have been used in preparing the Accounts. Where the businesses being sold represent management units within legal entities which are not part of the Group, then the trial balances included in the Accounts for these businesses have been derived from profit centre trial balances extracted from BTC's consolidation system, IDB. The profit centre to be extracted is 213021 (BTFM Int. Europe).

2. ACCOUNTING PRINCIPLES APPLICABLE TO THE ACCOUNTS AND THE COMPLETION STATEMENT

The Accounts have been and the Completion Statement will be drawn up in accordance with the detailed accounting procedures applied in the preparation of the Statutory Accounts and the accounts of the other entities which conduct the Business as set forth in the Disclosure Material and in accordance with the accounting principles adopted in preparing the trial balances for each of those entities and businesses subject to the Share Sale Deed. In all cases the underlying principles are those considered to be Generally Accepted Accounting Principles in Australia (GAAP), consistent with those applied in preparing the most recent statutory accounts of the relevant legal entities. Where a company is wholly owned by Bankers Trust Australia Limited (BTAL) its accounts are prepared on the same basis as BTAL accounts.

Any balances not recorded in Australian dollars will be translated into the Australian dollar equivalent at the foreign exchange rate prevailing as at the close of business in Sydney on the balance date in each case.

The following specific adjustments have (on a tax free basis) been made in preparing the Accounts, and will be made in preparing the Completion Statement, being a divergence from the generally accepted accounting principles applied in preparing

the most recent financial statements of the relevant entities. In preparing the Completion Statement, the adjustments will be tax effected where appropriate on the basis as set out in 3.2 below.

2.1 LIFE COMPANY ACCOUNTING

The available surplus in BT Life Statutory Funds recognised in the Completion Statement shall be determined on a basis consistent with that used to determine the available surplus in the Accounts.

2.2 CHANGE OF CONTROL PAYMENTS

When the 1998 statutory accounts were drawn up, the certainty of the merger of Deutsche Bank AG and Bankers Trust Corporation was not sufficient to require the raising of an accrual to reflect the Group's liability to employees under various outstanding deferred compensation schemes. Given that the merger has been effected prior to the date of the Share Sale Deed, the Accounts have been, and the Completion Statement will be, adjusted to reflect the totality of the Group's liability to employees in respect of deferred compensation schemes.

The 1999 bonus pool (an element of which is due upon Change of Control), will be accrued for on a straight line basis in the Group's accounts during the course of 1999 and, accordingly, the appropriate pro-rata accrual or expense will be recognised in the Completion Statement. The remaining bonus pool attributable to the balance of 1999 beyond the Completion Date will not be recognised in the Completion Statement but will be subsequently accrued over the remainder of 1999 after the Completion Date.

2.3 EMPLOYEE ENTITLEMENTS

The Group has offered certain retention incentives to key employees. These incentives, which are in addition to normal bonus participation and are referred to in staff retention letters as having a bullet vesting at future dates, are not included as an adjustment to the Accounts and no liability will be recognised in the Completion Statement for these retention incentives.

Employee incentives in the form of guaranteed bonus payments, where the guarantee is expected to be a normal bonus payment for conducting current employment duties, are to be expensed over the period to which the guarantee relates.

2.4 DEFERRED TAXATION BALANCES

The recognition of Future Income Tax Benefits (FITB's) and deferred tax liabilities are accounted for in accordance with the year end statutory accounts on the basis of an overall net deferred tax liability. In the Completion Statement, FITB's will in the first instance be fully recognised by netting against deferred tax liabilities, such netting to be within a legal entity basis, and thereafter FITB's will be recognised in accordance with GAAP.

2.5 GENERAL PROVISION

The Statutory Accounts included a general provision of $38 million. No general provision has been recognised in the Accounts and no general provision will be recognised in the Completion Statement.

3. ADDITIONAL ADJUSTMENTS TO BE MADE IN PREPARING THE COMPLETION STATEMENT

The following items are not included as adjustments to the Accounts. It is intended that these items will be reflected in the Completion Statement:

3.1 YEAR-TO-DATE RESULTS

The Net Assets in the Completion Statement will incorporate the net profit after tax of the Group (calculated under GAAP) for the period from 1 January 1999 to the Completion Date.

3.2 INCOME TAX

For the purpose of the Completion Statement, all current and deferred income tax balances will be calculated as if the income tax laws applicable at the date of signing this Share Sale Deed applied irrespective of any change of tax laws occurring between the signing date and the Completion Date.

3.3 REDUNDANCY PROVISIONS

A provision for redundancy costs will only be made or recognised in the Completion Statement to the extent that the Warrantor, the Vendors or BTAG, at the request of the Warrantor or Vendors, has:

(a) terminated an Employee without cause within the meaning of the Plans (as defined in Clause 4(d)); or

(b) terminated an Employee's employment on the ground of Redundancy within the meaning of the Policies (as defined in Clause 4(d)) or the BTAL Redundancy Policy for Commission Employees,

but only to the extent that any relevant payments have not been made before the Completion Date and excluding the instances where such action has been taken at the request of or with the consent of the Purchaser to accommodate the Purchaser's plans for the Business,

3.4 DIVIDEND PAYMENTS

It is currently anticipated that, prior to the Completion Date, the Vendors will require dividend payments to be paid or declared by the Group. Any such dividends will be reflected in the Net Assets of the Group in the Completion Statement.

3.5 CAPITAL INJECTION

The Net Assets in the Completion Statement will incorporate any capital injection made prior to the Completion Date.

3.6 NET ASSETS OF FM BUSINESSES

In the preparation of the Completion Statement, the short term borrowings of BTAL which are allocated to the FM Businesses as at the Completion Date shall be such that the Net Assets of the FM Businesses as at the Completion Date will be $95.5 million.

3.7 SALE OF IB BUSINESSES

In the preparation of the Completion Statement, there shall be disregarded:

(a) the sale of all or any part of the IB Businesses, wherever occurring; and

(b) entry into or performance of the IB Deed or any agreement entered into pursuant to the IB Deed.

SCHEDULE 8

AGREEMENTS TO BE CANCELLED AT COMPLETION

1. Service agreement between BTI and BTAL dated 1 January 1997 relating to the Metals and Mining business and London debt markets desk.

2. Service agreements between BTC and BTAL dated 23 January 1998 and 25 February 1998 relating to the Soft Commodities business.

3. Service agreement between BTI and BTAL dated 2 September 1998 relating to the London SYCOM terminal.

4. Service agreement between BT Alex. Brown Inc and BT Alex. Brown Australia Limited (BTABAL) dated 11 January 1999 relating to the New York equities desk.

5. Service agreement (undated) between BTABAL and BTC, Singapore Branch relating to the Singapore equities desk.

6. Service agreement between BTC and BTAL dated 17 February 1995 relating to FX business.

7. Indemnification agreement between BTC and BTAL dated 1 June 1992 relating to BTAL's exposure to non-bank, non-governmental counterparties.

8. Standby facility letter dated 30 June 1998 from BTC to BTAL providing standby facility to BTAL.

9. Agency agreement between BTI and BTAL dated 29 April 1988 relating to dealings in Australian fixed interest securities.

10. Service agreement between BTC and BTAL dated 18 December 1996 relating to the management of the Hong Kong swaps book.

11. Service agreement between BTC and BTAL dated 25 October 1996.

12. Letter of credit from BTAL to Sydney Futures Exchange Clearing House Pty Limited on account of BT Futures New Zealand Limited dated 26 November 1998.

SCHEDULE 9

RELATED PARTY DEBT TO BE RE-FINANCED AT COMPLETION

The $800 million facility provided by BTC to BTAL. The parties acknowledge that BTC shall set off or apply the corresponding amount on deposit with BTC from BTAL in full and final settlement of the amount owing to BTC by BTAL under this facility.

SCHEDULE 10

GROUP MEMBERS TO CHANGE NAMES

1. BT Investments (Australia) Limited
2. BT IB Holdings Pty Limited
3. Bankers Trust Australia Limited
4. BT Alex. Brown Australia Limited
5. BT Australia (H.K.) Financial Services Limited
6. BT Australia (HK) Limited
7. BT Pacific Management Limited
8. BT Australia Securities Limited
9. BT Capital Markets Nominees Pty Limited
10. BT Corporate Finance Limited
11. BT Finance Pty Limited
12. BT IB Limited
13. BT Infrastructure Pty Limited
14. BT Lease Management Pty Limited
15. BT Management Services Pty Limited
16. BT Properties Pty Limited
17. BT Risk Management Advisory Pty Limited
18. BT Science Holdings Pty Limited
19. BT Computer Leasing Pty Limited
20. BT Project Finance Pty Limited
21. BT R&D No. 1 Pty Limited
22. BT R&D No. 7 Pty Limited
23. BT Securitisation Management Pty Limited
24. BT Structured Equities Pty Limited
25. BT Technology Pty Limited
26. BT Australia Corporate Services Pty Limited
27. BT Nominees Limited
28. BT Funds Management Asia Limited
29. BT Funds Management (Singapore) Limited

Any other Group Member or any entity licensed by a Group Member which has as part of its name an Excluded Name.

SCHEDULE 11

BUSINESS NAMES TO BE RELINQUISHED

KEY:
+ BTAB = BT Alex. Brown Australia Limited
+ BTCF = BT Corporate Finance Limited

BUSINESS NAMES	BUSINESS NAME ACT	REGISTRATION NO.	RENEWAL DATE	REGISTERED PROPRIETOR
Bankers Trust	NSW	U9289638	5/8/2001	BTAL
	ACT	F00089272	29/5/2001	BTAL
	VIC	1386302A	11/6/2001	BTAL
	SA	0429278K	5/6/2001	BTAL
	WA	0237654A	11/6/2001	BTAL
	QLD	BN6913787	10/6/1999	BTAL
Bankers Trust Australia	NSW	T9531527	2/4/2000	BTAL
Bankers Trust Research	NSW	T6482527	16/10/1999	BTAL
	ACT	F00089776	17/7/2001	BTAL
	VIC	B1398956D	21/8/2001	BTAL
	SA	0430759M	8/7/2001	BTAL
	WA	0240590H	15/7/2001	BTAL
	QLD	BN7009458	27/8/1999	BTAL
BT Alex. Brown	NSW	U7814026	28/5/2001	BTAL/BTAB
	ACT	F00089273	29/5/2001	BTAL/BTAB
	VIC	1384733U	l/6/2001	BTAL/BTAB
	SA	0428956W	29/5/2001	BTAL/BTAB
	WA	0236973N	3/6/2001	BTAL/BTAB
	QLD	BN6905160	2/6/1999	BTAL/BTAB
BT Alex. Brown Research	NSW	U8339414	23/6/2001	BTAB
	ACT	F00089563	26/6/2001	BTAB
	VIC	B1394215V	30/7/2001	BTAB

BUSINESS NAMES	BUSINESS NAME ACT	REGISTRATION NO.	RENEWAL DATE	REGISTERED PROPRIETOR
	SA	0430407W	l/7/2001	BTAB
	WA	0238874A	25/6/2001	BTAB
	QLD	BN6936660	26/6/1999	BTAB
BT Wolfensohn	NSW	U7814418	28/05/2O0l	BTAL/BTCF
	ACT	F00089274	29/05/2001	BTAL/BTCF
	VIC	1384736A	01/06/2001	BTAL/BTCF
	SA	0428957R	29/05/2001	BTAL/BTCF
	WA	0236971J	03/06/2001	BTAL/BTCF
	QLD	BN6904683	29/05/1999	BTAL/BTCF
BT Capital	NSW	U3929320	3/11/2000	BTAL
Partners,	ACT	F00087153	10/11/2000	BTAL
Australia	VIC	1358076V	19/11/2000	BTAL
	SA	0421427P	6/ll/2000	BTAL
	WA	0223053Y	25/11/2000	BTAL
	NT	68866B	23/2/2001	BTAL
	QLD	BN6704797	11/11/1999	BTAL
				BTAL
BT Instalments	NSW	T9746547	14/4/2000	BTAL
	ACT	F00089564	26/6/2001	BTAL
	VIC	B1394218B	30/7/2001	BTAL
	SA	0430406A	l/7/2001	BTAL
	WA	0238876E	25/6/2001	BTAL
	QLD	BN6936647	26/6/1999	BTAL
BT Instalment	NSW	U0587830	27/5/2000	BTAL
Warrants	ACT	F00089565	26/6/2001	BTAL
	VIC	B1394222S	30/7/2001	BTAL
	SA	0430403P	l/7/2001	BTAL
	WA	0238873Y	25/6/2001	BTAL
	QLD	BN6936623	26/6/1999	BTAL
BT Investor Services	NSW	T29805332	23/4/1999	BTAB

BUSINESS NAMES	BUSINESS NAME ACT	REGISTRATION NO.	RENEWAL DATE	REGISTERED PROPRIETOR
BT Private Stockbroking	NSW	UO854248	10/6/2000	BTAB
	ACT	F00089567	26/6/2001	BTAB
	VIC	B1394228E	30/7/2001	BTAB
	SA	0430402T	l/7/2001	BTAB
	WA	0238903F	25/6/2001	BTAB
	QLD	BN6936593	26/6/1999	BTAB
BT Stockwatch	NSW	T3925731	07/06/1999	BTAB
BT Warrants	NSW	T3916144	6/6/1999	BTAL
	ACT	F00089568	26/6/2001	BTAL
	VIC	B1394229G	30/7/2001	BTAL
	SA	0430408R	l/7/2001	BTAL
	WA	0238906M	25/6/2001	BTAL
	QLD	BN6936611	26/6/1999	BTAL

SCHEDULE 12

REAL PROPERTY

PART I - LEASEHOLD

PROPERTY LEASED	LESSOR	LESSEE	COMMENCING DATE	TERMINATING DATE
Chifley Tower (Level 2-10,13-16)	Mid Sydney Pry Limited	BTAL	23 March 1993	13 March 2006
Level 13,14,15 & 16 Colonial Centre, 52 Martin Place, Sydney	Perpetual Trustee Company Limited	BTAL	13 October 1997	12 October 2002
Levels 5 & 6 33 & 35 Pitt Street, Sydney	Advance Bank Australia Limited	BTAL	1 March 1995	30 June 2006
Ground Floor, Challis House, 4 Martin Place, Sydney	The University of Sydney	BTAL	6 September 1993	5 September 1999
Ground Floor, The Colonial Mutual Building, 55 St George's Terrace, Perth, WA	The Colonial Mutual Life Assurance Society Limited	BTAL	8 September 1998	7 September 2003

SCHEDULE 12

REAL PROPERTY

PART I - LEASEHOLD

PROPERTY LEASED	LESSOR	LESSEE	COMMENCING DATE	TERMINATING DATE
Level 23 & 24,367 Collins Street Melbourne	Commonwealth Bank of Australia	BTAL	7 October 1991	31 March 2004
The Land and the building at 340 Queens Street, Brisbane formerly known as the Piccadilly Arcade	Martin Joseph Glynn and Anne Glynn	BTAL	14 July 1995	13 July 2005
Level 3, 178 Pacific HWY, St Leonards	Wylde Investments Pty. Limited	BTAL	1 May 1995	29 April 2000
Suite 1, Level 3, 178 Pacific HWY, St Leonards	BTAL	Sydney Futures Exchange	1 May 1995	29 April 2000

SCHEDULE 12

REAL PROPERTY

PART I - LEASEHOLD

PROPERTY LEASED	LESSOR	LESSEE	COMMENCING DATE	TERMINATING DATE
455 Bourke Street, Melbourne, Ground Floor	ANZ Staff Superannuation (Australia) Pty Ltd	BTAL	1 June 1991	31 May 2001
Level 16, 215 Adelaide Street, Brisbane	BT Custodial Services	BTAL	Month to Month	Month to Month
Laffer Drive Bedford Park SA 5042	Industrial and Commercial Premises Corporation of Adelaide	BTAL (Note: see Part II of this Schedule 12)	26 May 1997	Maximum term of 11 years. BTAL has agreed to purchase the land and buildings over a maximum term of 11 years following completion of construction. BTAL has an option to repay early.

SCHEDULE 12

REAL PROPERTY

PART I - LEASEHOLD

PROPERTY LEASED	LESSOR	LESSEE	COMMENCING DATE	TERMINATING DATE
75 Hindmarsh Square Adelaide 5000	Underlessor Price Waterhouse Properties Limited Headlessor Mancorp Investments Pty Ltd	Underlessee BTAL	1 July 1998	20 May 2000
Ground and first Floors plaza building 321 Kent Street Sydney	Perpetual Trustee Company Ltd & Kent Street Pty Ltd	BTAL	1 May 1994	30 April 2001
6 Temasek Boulevard #23-03, Suntec Tower Four Singapore	Suntec City Development Pte Ltd	Bankers Trust Funds Management (Singapore) Limited	15 December 1997	14 December 2000 (with an option for one further three year term)
Suite 5 2nd Floor Regent Building, 33 Cathedral Square, Christchurch	Regent Building Limited	BT Funds Management (NZ) Ltd	1 January 1999	31 March 2001 (with an option for a further two year term)

SCHEDULE 12

REAL PROPERTY

PART I - LEASEHOLD

PROPERTY LEASED	LESSOR	LESSEE	COMMENCING DATE	TERMINATING DATE
Level 7, Barclays House, 70 Shortland Street, Auckland	The New Zealand Guardian Trust Company Limited	National Registry Services Pty Limited	1 November 1997	31 October 1999

SHARE SALE DEED

Allen Allen
& Hemsley

FREEHOLD

PART II - FREEHOLD

DESCRIPTION/ LOCATION	ACQUISITION DATE	PURCHASE PRICE	TOTAL AREA M2
Properties Owned by BTAL			
Laffer Drive Hugh Cairns Ave Bedford Park, SA 5042	1.7.97	Balance of purchase price to be paid on 30 June 1999	6,670m(2) Includes Childcare and plant room

SCHEDULE 13

TRUSTS

1. DOMESTIC AS AT 15 JUNE 1999

1.1 WHOLESALE

ROLE	TRUST/FUNDS
BT Custodial Services Pty Limited ("BTCS") - - - Trustee	BT Asian Growth Fund
BT Funds Management Limited ("BTFM") - Manager	
BTFM - Trustee & Manager	BT Australia Charities Trust
BTCS - Trustee BTFM - Manager	BT Australian Bond Fund
BTCS - Trustee BTFM - Manager	BT Australian Corporate Securities Fund
BTCS - Trustee BTFM - Manager	BT Australian Equity Fund
BTFM - Trustee & Manager	BT Australian Small Companies Fund
BTCS - Trustee BTFM - Manager	BT Emerging Markets Fund
BTCS - Trustee BTFM - Manager	BT Exempt Retirement Fund
BTCS - Trustee BTFM - Manager	BT Exempt Stable Capital Fund
BTCS - Trustee	BT Global Small Companies Fund

ROLE	TRUST/FUNDS
BTFM - Manager	
BTCS - Trustee BTFM - Manager	BT Hedged International Bond Fund
BTCS - Trustee BTFM - Manager	BT Indexed Bond Fund
BTCS - Trustee BTFM - Manager	BT Interactive Income Fund
BTCS - Trustee BTFM - Manager	BT Intermediate Bond Fund
BTCS - Trustee BTFM - Manager	BT International Bond Fund
BTCS - Trustee BTFM - Manager	BT International Equity Fund
BTCS - Trustee BTFM - Manager	BT Pan Indexed Bond Fund
BTCS - Trustee BTFM - Manager	BT Pan Intermediate Bond Fund
BTCS - Trustee BTFM - Manager	BT Pan Latin American Fund
BTCS - Trustee BTFM - Manager	BT Pan Stable Capital Fund
Buttonwood Nominees Pty Limited appointed as custodian for the business of	

ROLE	TRUST/FUNDS
conducting securities borrowing. Performance of custodian function guaranteed by BTAL.	
BTCS -- Trustee BTFM -- Manager	BT Property Investment Fund
BTFM -- Manager BTCS -- Trustee	BT Financial Markets Trust Deed BT Money Market Trust BT Cash Plus Fund
BT Finance & Investments Pty Limited -- Trustee	BTF&I Cash Management Trusts BTF&I Pendal Cash Management Fund

1.2 RETAIL

ROLE	TRUST/FUNDS
BTFM -- Responsible Entity BTCS -- Custodian	BT Select Bond Trust -- Australasian Bond Fund -- Global Bond Fund
BTFM -- Responsible Entity BTCS -- Custodian	BT Split Trust BT Split Growth Fund BT Split Income Fund
BTFM -- Responsible Entity BTCS -- Custodian	BT Wholesale Fund -- BT Wholesale Managed (NTP) Fund -- BT Wholesale Conservative Outlook (NTP) Fund BT Wholesale Asian Share Fund BT Wholesale Australian Share Fund -- BT Wholesale International Share Fund

ROLE	TRUST/FUNDS
	-- BT Wholesale Property Securities Fund
	BT Wholesale Future Goals Fund
	BT Wholesale Split Growth Fund
	BT Wholesale European Share Fund
	BT Wholesale American Share Fund
	BT Wholesale Diversified Fixed Interest Fund
BTFM -- Manager	BT Inter-Fund Trust
	Australian Fixed Interest Fund
	Eastern European Fund
BTFM -- Responsible Entity BTCS -- Custodian	BT Cash Management Trust
BTFM -- Responsible Entity BTCS -- Custodian	BT Lifetime Trust
	BT Balanced Returns Fund
	BT Future Bonds Fund
	BT Income Plus Fund
	BT Monthly Income Fund
	BT Balanced Deeming Fund
BTFM -- Manager	BT Private Investment Fund
	-- BT Private Investment International Fund
	-- BT Private Investment Asset Selection Fund
	-- BT Private Investment Emerging Markets Fund
	-- BT Private Investment Australian Share Fund
BTFM -- Responsible Entity	BT Select Markets Trust

ROLE	TRUST/FUNDS
BTCS - Custodian	BT Equity Imputation Fund BT American Growth Fund BT European Growth Fund BT Pacific Basin Fund BT International Fund BT Global Energy and Resources Fund BT Global Bond Fund BT South Korean Fund BT Australian Bond Fund BT Property Securities Fund
Parties to the Deed are BT Securities Limited and Permanent Trustee Company Limited	The 1990 FFC Film Fund - 07.05.90
Parties to the Deed are BT Securities Limited, Rycop Pty Limited, Permanent Trustee Nominees (Canberra) Limited and Permanent Trustee Company Limited	The Vietnam Film Fund
Parties to the Deed are BT Securities Limited, Kennedy Miller Productions Pty Limited, Permanent Trustee Nominees (Canberra) Limited and Permanent Trustee Company Limited	Dead Calm Film Fund
BTFM - Manager	BT Infrastructure Funds
BTFM - Manager	BT Airport Sub-trust

1.3 SUPERANNUATION & LIFE

ROLE	TRUST/FUNDS
BTFM - Manager & Trustee BTCS - Custodian BT Portfolio Services Limited ("BTPS")	BT Ansett Pooled Superannuation Trust (formerly The BTA Ansett Pooled Superannuation Trust)

ROLE	TRUST/FUNDS
provides the administrative functions for BTFM under a formal agreement.	(Classification -- PST -- Wholesale)
BT Tactical Asset Management Pty Limited ("BTTAM") -- Manager & Trustee BTFM is appointed to manage a portfolio of physical assets, cash and derivatives corresponding with the benchmark of the Trust's portfolio under an individually managed client agreement.	BT Asset Allocation Trust (Classification -- PST -- Wholesale)
BTTAM -- Manager & Trustee BTFM -- Manager (Australian Equity) BTCo -- Manager (International Equity and Bond Exposure)	BT Asset Allocation Passive Sector Trust
BTFM -- Manager & Trustee	BT Choices Pooled Superannuation Trust -- Australian Equities Portfolio -- International Equities Portfolio -- Property Securities Australian Bonds International Bonds Capital Secure Portfolio Capital Stable Portfolio Balanced
BTFM -- Manager & Trustee BTCS -- Custodian	BT Global Small Companies Pooled Superannuation Trust
BTFM -- Manager & Trustee BTCS -- Custodian	BT Pan International Equity (Balanced) Pooled Superannuation Trust
BTFM -- Manager & Trustee	BT Retirement Fund

ROLE	TRUST/FUNDS
BTCS -- Custodian	
BTFM -- Manager & Trustee BTCS -- Custodian	BT Select -- Australian Equity Portfolio -- International Equity Portfolio -- Property Securities Portfolio -- Australian Bond Portfolio -- Stable Capital Portfolio -- Balanced Portfolio Diversified Fixed Interest Portfolio BTAP/BTAP3
BTFM -- Manager & Trustee BTCS -- Custodian	BT Stable Capital Fund
BTFM -- Manager & Trustee BTCS -- Custodian	BT Stable Growth Fund
BTFM -- Manager & Trustee	BT Conservative Outlook Fund Tax Paid Portfolio Pension Fund Portfolio
BTFM -- Trustee	BT Lifetime Super Employer Plan ("ESF") -- Cash Portfolio -- Conservative Outlook Portfolio Future Goals Portfolio -- Managed Portfolio -- Australasian Bond Portfolio -- Global Bond Portfolio -- Australian Share Portfolio -- International Share Portfolio

ROLE	TRUST/FUNDS
	-- Property Securities Portfolio -- Member Protected Portfolio (for small balances) External Managed -- Managed Portfolio External Managed -- Conservative Portfolio External Managed -- Australian Share Portfolio External Managed -- International Share Portfolio
BTFM -- Trustee	BT Fixed Rate Pension (FRP) -- 2 Year Fixed Rate Option -- 3 Year Fixed Rate Option
BTFM -- Trustee	BT Fixed Rate Rollover Fund 2 Year Fixed Rate Option 3 Year Fixed Rate Option
BTFM -- Manager & Trustee BTCS -- Custodian under formal agreement BT Custodians Limited -- Sub-Custodian under formal agreement	BT Lifetime Super Personal Plan -- Managed Portfolio Future Goals Portfolio -- Conservative Outlook Portfolio -- Property Securities Portfolio -- Cash Portfolio -- Australasian Bond Portfolio -- Global Bond Portfolio -- Australian Share Portfolio -- International Share Portfolio
BTFM -- Manager & Trustee	BT Managed Fund Tax Paid Portfolio Pension Fund Portfolio

ROLE	TRUST/FUNDS
BTFM -- Trustee	BT Retirement Selection -- BT Retirement Pension Plan Personal Superannuation Plan -- Cash Portfolio -- Conservative Outlook Portfolio Future Goals Portfolio -- Managed Portfolio -- Australasian Bond Portfolio -- Global Bond Portfolio -- Australian Share Portfolio -- International Share Portfolio -- Property Securities Portfolio
BTFM -- Manager & Trustee	BT Specialist PST -- Australian Share Portfolio -- International Share Portfolio
BTFM -- Manager & Trustee	BT Super Trust Conservative Outlook Fund Investment Fund
BTTAM -- Trustee BTCS -- Custodian	SuperWrap Conservative Outlook Fund Investment Fund
Bankers Trust Life Limited -- Issuer of the life policy	Personal Super Plan Policy
Bankers Trust Life Limited is the issuer of the life Policy	Employer Superannuation Policy

ROLE	TRUST/FUNDS
Bankers Trust Life Limited is the issuer of the life Policy	Retirement Pension Plan Policy
Bankers Trust Life Limited is the issuer of the life Policy	Bankers Trust Life Wholesale Funds Management Policy -- Cash Portfolio -- Capital Stable Portfolio -- Managed Portfolio
Bankers Trust Life Limited is the issuer of the life Policy	BT Investment Management Policy
Bankers Trust Life Limited is the issuer of the life policy	BT Fixed Rate Pension Policy -- 2 Year Fixed Rate Option -- 3 Year Fixed Rate Option
Bankers Trust Life Limited is the issuer of the life policy	BT Complying Income Plan Fixed return option CPI linked option

2. INTERNATIONAL -- AS AT 15 JUNE 1999

2.1 NEW ZEALAND

ROLE	TRUST/FUNDS
BT Funds Management (NZ) Limited -- Manager	BT New Zealand Investment Selection (Retail Unit Trust) -- Managed Growth Fund -- Income Plus Fund -- International Share Fund -- New Zealand Share Fund -- Australian Share Fund -- Pacific Basin Share Fund -- Property Fund -- Global Bond Fund
BT Funds Management (NZ) Limited -- Manager	BT Private Selection (Mezzanine Unit Trust) -- Managed Growth Fund -- International Share Fund -- New Zealand Share Fund -- European Share Fund -- Asian Share Fund -- Global Bond Fund -- New Zealand Bond Fund -- Property Fund -- Cash Fund
BT Funds Management (NZ) Limited -- Manager and Trustee	BT Lifetime Plan (Retail Superannuation) -- Managed Growth Fund -- Income Plus Fund

ROLE	TRUST/FUNDS
	-- International Share Fund -- New Zealand Share Fund -- Pacific Basin Share Fund -- New Zealand Bond Fund -- Global Bond Fund -- Cash Deposit Fund
BT Funds Management (NZ) Limited -- Manager and Trustee	BT New Zealand Investment Series (Wholesale Superannuation) -- Balanced Fund -- New Zealand Share Fund -- International Share Fund -- New Zealand Bond Fund -- Global Bond Fund -- Property Fund -- Cash Fund

2.2 DUBLIN

ROLE	TRUST/FUNDS
BT Funds Management (International) Limited -- investment adviser.	BTIIS -- Asian Equity Fund -- European Equity Fund -- International Equity Fund -- Japanese Equity Fund -- American Equity Fund -- Emerging Markets Equity Fund -- Global Smaller Companies Fund BTGAF -- Latin American Equity Fund

2.3 SINGAPORE

ROLE	TRUST/FUNDS
BT Funds Management (Singapore) Limited -- Manager	BT Select Investment Series Global Equity Fund

3. PROPERTY -- AS AT 15 JUNE 1999

3.1 LISTED PROPERTY TRUSTS

ROLE	TRUST/FUNDS
BTFM -- Manager	BT Office Trust
	BT Office Sub-trusts:
BTFM -- Manager	Grosvenor Sub-Property Trust
BTFM -- Manager (Project Ben Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	Macquarie Street Trust
BTFM -- Manager (Northern Site Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	Macquarie Street Sub-Trust
BTFM -- Manager (Project Ben Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	Philip Street Trust
BTFM -- Manager (Southern Site Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	Philip Street Sub-trust
BTFM -- Manager (Perpetual Trustee is the current trustee)	BT Sydney Development Trust
BTFM -- Manager	BT Sydney Development Sub-trust
BTFM -- Manager	BT Property Trust
	BT Property Sub-trusts:
BTFM -- Manager (Project Marketown Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition	Marketown Holdings Trust
BTFM -- Manager	Mt Druitt Shopping Centre Trust
BTFM -- Manager	BT Hotel Trust

ROLE	TRUST/FUNDS
	BT Hotel Trust sub-trusts:
BTFM -- Manager (National Convention Corporation Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	National Convention Trust
BTFM -- Manager (Convention Centre Hotel Pty Ltd is the current trustee -- to be transferred from PTAL to BTFM on MIA transition)	Convention Centre Hotel Trust

3.2 UNLISTED WHOLESALE PROPERTY TRUSTS

ROLE	TRUST/FUNDS
BTFM -- Trustee	BTA Property Trust (BTAP)
Detawind Pty Ltd, Cynwest Pty Ltd and Westatop Pty Ltd are the registered owners of Maritime Trade Towers and are wholly owned by BTFM on behalf of BTAP.	
	BTAP sub-trusts:
(Dellarak Pty Ltd -- Trustee)	Office Building No 4 Trust
(QV1 Pty Ltd -- Trustee)	QV1 Trust
BTCS -- Trustee)	BT Shopping Centre Trust
BTFM -- Trustee	BTA Property Trust No 3 (BTAP#3)
	BTAP#3 sub-trusts:
BTA -- Trustee BTFM -- Manager	BT Brisbane Development Trust
BTCS -- Trustee BTFM -- Manager	BT Brisbane Development Sub-trust
Farwell Investments Pty Ltd -- Trustee	Heritage Floor space trust
BTFM -- Manager	Floor space trust

SCHEDULE 14

PARENT SUPPORT OBLIGATIONS

1. Guarantee dated 30 April 1997 from BTNZ in favour of each person who enters into an investment management agreement or is a unitholder in the BT New Zealand Wholesale Superannuation Scheme or BT Balanced Fund (under the BT New Zealand Unit Trust) guaranteeing the due performance of any obligation of BTNZl as manager or trustee and of BTNZ2 as custodian.

2. Guarantee dated 1996 from BTNZ in favour of each person who enters into an investment management agreement guaranteeing the due performance of any obligation of BT Funds Management (NZ) Limited as manager and of BTNZ2 as custodian.

3. Guarantee Letter of Comfort given to Comalco (New Zealand) Staff Superannuation Fund by BTNZ dated 7 April 1995.

4. Guarantee Letter of Comfort given to Marsh & McClennan (New Zealand) Superannuation Scheme by BTNZ dated 9 June 1995.

5. Guarantee Letter of Comfort given to Mobil Employee Retirement & Benefits Plan by BTNZ dated 22 July 1996.

EXECUTED AND DELIVERED AS A DEED.

Each attorney executing this Deed states that he or she has not received notice of the revocation or suspension of the power of attorney under which he does so.

THE VENDORS

SIGNED SEALED AND)
DELIVERED on behalf of)
BT FOREIGN INVESTMENT)
CORPORATION by its)
Attorney in the presence of:)

Signature

Witness

Print name

Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT INVESTMENTS (AUSTRALIA))
LLC)
by its attorney in the presence of:)
)

Signature

Witness

Print name

Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT NEW ZEALAND)
LIMITED by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT INTERNATIONAL)
(DELAWARE) INC.)
LIMITED by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT NOMINEES (H.K) LIMITED)
by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

THE VENDORS' GUARANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
BANKERS TRUST CORPORATION)
by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

THE WARRANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
DEUTSCHE BANK AG)
by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

THE PURCHASER

SIGNED SEALED AND)
DELIVERED on behalf of)
PRINCIPAL FINANCIAL GROUP)
(AUSTRALIA) PTY LTD)
by its attorney)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

THE PURCHASER'S GUARANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
PRINCIPAL FINANCIAL)
SERVICES, INC.)
by its authorised representatives)
in the presence of:)

Signature

- ---
Witness

Print name

- ---
Print name

Signature

Print name

Exhibit 2.3

DEED OF AMENDMENT

- ---

BT Investments (Australia) LLC

BT Foreign Investment Corporation

BT New Zealand Limited

BT International (Delaware), Inc.

BT Nominees (H.K.) Limited

Deutsche Bank AG

Bankers Trust Corporation

Principal Financial Group (Australia) Pty Limited

Principal Financial Services, Inc.

Deed to amend the Share Sale Deed

Allen Allen & Hemsley
The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia
Tel 61 2 9230 4000
Fax 61 2 9230 5333

DATE 31 August 1999

PARTIES

1. BT INVESTMENTS (AUSTRALIA) LLC c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America (BTLLC);

   BT FOREIGN INVESTMENT CORPORATION c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America (BTFIC);

   BT NEW ZEALAND LIMITED of Level 7, Price Waterhouse Centre, 66 Wyndham Street, Auckland, New Zealand (BTNZ);

   BT INTERNATIONAL (DELAWARE), INC. c/o U.S. Corporation Company 1013 Centre Road, Wilmington, Delaware 19805, United States of America (BTID); and

   BT NOMINEES (H.K.) LIMITED of 36TH Floor, Two Pacific Place, 88 Queensway, Hong Kong (BTNHK),
   (each a Vendor).

2. DEUTSCHE BANK AG (ARBN 064 165 162) of Level 28, 31 West 52nd Street, New York, New York 10005, United States of America (the Warrantor).

3. BANKERS TRUST CORPORATION of BT Plaza, 130 Liberty Street, New York, New York 10005, United States of America (the Vendors' Guarantor).

4. PRINCIPAL FINANCIAL GROUP (AUSTRALIA) PTY LIMITED (ACN 087 480 3l3) (formerly of Level 17,201 Miller Street, North Sydney 2060) now of Level 27,530 Collins Street, Melbourne, Victoria 3000, Australia (the Purchaser).

5. PRINCIPAL FINANCIAL SERVICES, INC. of 711 High Street, Des Moines, IA 50392-0300, United States of America (the Purchaser's Guarantor).

RECITALS

A. The parties are parties to a share sale deed dated 17 June 1999 under which each Vendor agreed to sell the Sale Shares held by it and the Purchaser agreed to purchase all of the Sale Shares on the terms and subject to the conditions of that deed (the Share Sale Deed).

B The parties wish to amend the Share Sale Deed in the manner set out in this Deed.

IT IS AGREED as follows.

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

Bankers Trust Names means a name that is or includes the word Bankers Trust or any word substantially or deceptively similar to those words.

1.2 INTERPRETATION

Clause 1.2 of the Share Sale Deed applies as if incorporated in this Deed.

1.3 DEFINITIONS IN SHARE SALE DEED APPLY

Definitions in the Share Sale Deed apply in this Deed unless the context requires otherwise or the relevant term is defined in this Deed.

2. AMENDMENTS

2.1 AMENDMENTS

The Share Sale Deed is amended as set out in the remainder of this clause 2.

2.2 SHARE CAPITAL DETAILS

(a) (Schedule 1) Replace Part 1 of Schedule 1 with Schedule 1 of this deed.

(b) (Schedule 2) In Part 1 of Schedule 2:

(i) in item 2(a), replace NZ$14,488,336 with NZ$7,988,336 and 14,488,336 ordinary shares with 8,971,733 ordinary shares;

(ii) in item 2(b), replace 14,488,336 with 8,971,733;

(iii) in item 2(c), replace 14,488,336 with 8,971,733;

(iv) in item 4(a), replace $10,006,334 with $3,506,344 and 10,006,334 ordinary shares with 3,506,344 ordinary shares;

(v) In item 4(b), replace 10,006,334 with 3,506,344;

(vi) In item 4(c), replace 10,006,334 with 3,506,344;

(vii) in item 5(a), replace US$350,000 with US$700,000;

(viii) in item 6(b):

(A) replace in the third line:

Class A Common 100

with
Ordinary 2,600,000; and

(B) delete the fourth line being:
BTFIC Class B Common 160;

(ix) in item 6(c):

(A) replace in the third line:
Class A Common 100
with
Ordinary 2,600,000; and

(B) delete the fourth line being:
BTFIC Class B Common 160

2.3 EMPLOYEES

(a) (Definitions) In clause 1.1:

(i) insert the following new definitions after the definition of Corporate Services:

DNZ means Deutsche New Zealand Limited (formerly Bankers Trust New Zealand Limited) of level 7, Price Waterhouse Centre, 66 Wyndham Street, Auckland, New Zealand.

DNZ FM Employees means employees of DNZ engaged, on the date of this Deed, in the FM Businesses (excluding any Shared Employees not notified by the Purchaser under Clause 3.6); and

(ii) in the third line of the definition of Employees, insert after Offshore FM Businesses, the words and includes DNZ FM Employees.

(b) (Clause 4(f)(ii)) In clause 4(f)(ii), insert in the second line between the Group and or the, the words, Principal Financial Group (NZ) Limited.

(c) (New Clauses 4(k) and (l)) Insert the following new subclauses after clause 4(j):

(k) (NZ Re-employment) The parties acknowledge that the DNZ FM Employees were offered employment on or before the Completion Date by Principal Financial Group (NZ) Limited (the NZ Re-employment).

(l) (No claim) The Purchaser will make no claim for breach of Warranty in relation to:

(i) the DNZ FM Employees not being employees of a Group Member at the date of this Deed; or

(ii) the NZ Re-employment.

2.4 PARENT SUPPORT OBLIGATIONS

(a) (Clause 6.10(b)) In the first line of clause 6.10(b), replace the Vendors, the Warrantor and the Vendor's Guarantor with any member of the Vendors' Group that has given a Parent Support Obligation

(b) (SCHEDULE 14) In Schedule 14, replace BTNZ with DNZ in:

(i) the first line of item 1;

(ii) the first line of item 2;

(iii) the second line of item 3;

(iv) the second line of item 4; and

(v) the second line of item 5.

(c) (SCHEDULE 14) In Schedule 14:

(i) replace BTNZ1 in the fifth line of item 1 with BT Funds Management(NZ) Limited; and

(ii) replace BTNZ2 in the fifth line of item 1 and the fourth line of item 2 with BT New Zealand Nominees Limited

2.5 APPLICATION FOR REGISTRATION OF TRADE MARKS

Delete clause 13.2(b). This deletion does not limit or otherwise affect clause 13.10.

2.6 OFFSHORE FM BUSINESSES - IRELAND AND UK

In clause 1.1, replace the definition of Drop Dead Date with the following:

Drop Dead Date means:

(a) in respect of clauses 6.8(a) and (b), 31 January 2000; and

(b) in any other case, 30 November 1999,

or such other dates agreed by the parties.

2.7 GROUP RESTRUCTURING

In clause 1.1, insert in the definition of Group Restructuring, or as otherwise agreed in writing between the Warrantor and the Purchaser's Guarantor after the words Schedule 3.

2.8. ELECTION UNDER SECTION 338(h)(10) OF THE INTERNAL REVENUE CODE

In Part IV of Schedule 4, in clauses 6(b) and (c), replace at the Completion Date in the first line with within the time required under the Internal Revenue Code.

3. BANKERS TRUST NAME

(a) Notwithstanding Clause 13.8 of the Share Sale Deed, the Purchaser is not required to procure, until the Transition Date, that:

(i) Bankers Trust Australia Limited or Bankers Trust Life Limited each change its company name to one that does not include an Excluded Name or BT Name;

(ii) each Group Member which has registered the business names Bankers Trust or Bankers Trust Australia under each relevant Business Names Act furnishes Cessation of Business under Business Name forms for those business names to the Warrantor; or

(iii) each Group Member listed in Schedule 10 of the Share Sale Deed destroys all unused stationery and other items which bear any words or marks that include a Bankers Trust Name or the Pyramid Device, and if the Warrantor so specifies, confirm to it in writing the destruction of all unused stationery and other items in the possession of any Group Member being such words or marks.

(b) The Warrantor, the Vendors and the Vendors' Guarantor acknowledge that the Purchaser is only obliged to comply with clauses 13.8(a) to (c) of the Share Sale Deed in respect of the Group Members listed in Part IIC of Schedule 2 to the Share Sale Deed.

(c) The Purchaser and the Purchaser's Guarantor acknowledge that the Warrantor's rights under clause 4 of the IB Deed includes the power to carry out any matters contemplated under clauses 13.8(a) to (c) of the Share Sale Deed in respect of the Group Members listed in Part IIB of Schedule 2 to the Share Sale Deed.

4. GOVERNING LAW AND JURISDICTION

This Deed is governed by the laws of New South Wales. The parties submit to the non-exclusive jurisdiction of courts exercising jurisdiction there.

5. COUNTERPARTS

This Deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

SCHEDULE 1

SHARES AND BUSINESSES
PART I

Column 1: Vendor	Column 2: Company in which Sale Shares are held	Column 3: No. of Sale Shares	Column 4: Purchase Price	Column 5: Percentage of issued capital
BTLLC	BT Investments (Australia) Limited (BTIA)	1,108 ordinary shares	$1,994,713,987	100%
BTNZ	BT Funds Management (NZ) Limited	8,971,733 ordinary shares	$ 89,839,683	100%
BTNZ	BT New Zealand Nominees Limited	212,643 ordinary shares	$ 160,317	100%
BTNZ	BT Portfolio Services (NZ) Limited	3,506,344 Ordinary Shares	$ 8,628,389	100%
BTID	BT Funds Management Asia Limited (BTFMA)	349,999 common shares	$ 4,834,695	99.9999%
BTNHK	BTFMA	1 common share	$ 1	0.0001%
BTFIC	BT Funds Management (Singapore) Limited (BTFMS)	2,600,000 ordinary shares	$ 1,822,924	100%

EXECUTED and DELIVERED as a Deed.

Each attorney executing this Deed states that he or she has no notice of revocation or suspension of his or her power of attorney.

THE VENDORS

SIGNED SEALED AND)
DELIVERED on behalf of)
BT FOREIGN INVESTMENT)
CORPORATION by its)
Attorney in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT INVESTMENTS (AUSTRALIA))
LLC)
by its attorney in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT NEW ZEALAND)
LIMITED by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT NOMINEES (H.K.) LIMITED)
by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Mark Cerche Mark Grolman
Witness Print name

Mark Cerche
Print name

THE VENDORS' GUARANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
BANKERS TRUST CORPORATION)
by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Mark Cerche Mark Grolman
Witness Print name

Mark Cerche
Print name

THE WARRANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
DEUTSCHE BANK AG)
by its attorney)
in the presence of:) /s/ Troland S. Link
Signature

/s/ Mark Grolman Troland S. Link
Witness Print name

Mark Grolman
Print name

THE PURCHASER

SIGNED SEALED AND)
DELIVERED on behalf of)
BT INTERNATIONAL)
(DELAWARE) INC.)
LIMITED by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
BT NOMINEES (H.K.) LIMITED)
by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

THE VENDORS' GUARANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
BANKERS TRUST CORPORATION)
by its attorney)
in the presence of:) /s/ Mark Grolman
Signature

/s/ Abigail B. Young Mark Grolman
Witness Print name

Abigail B. Young
Print name

SIGNED SEALED AND)
DELIVERED on behalf of)
PRINCIPAL FINANCIAL GROUP)
(AUSTRALIA) PTY LTD)
by its attorney) /s/ Karen E. Shaff
in the presence of:) ----------
Signature

/s/ Xavier P. Grappotte Karen E. Shaff
- ---------- ----------
Witness Print name

Xavier P. Grappotte
- ----------
Print name

THE PURCHASER'S GUARANTOR

SIGNED SEALED AND)
DELIVERED on behalf of)
PRINCIPAL FINANCIAL)
SERVICES, INC.) /s/ Karen E. Shaff
by its authorised representatives) ----------
in the presence of:) Signature

/s/ Xavier P. Grappotte Karen E. Shaff
- ---------- ----------
Witness Print name

Xavier P. Grappotte
- ----------
Print name

EXHIBIT 2.4

SECOND AMENDMENT TO SHARE SALE DEED

DATE 14 March 2001

PARTIES

1. BT INVESTMENTS (AUSTRALIA) LLC c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America;

   B.T. FOREIGN INVESTMENT CORPORATION c/o Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States of America;

   DEUTSCHE NEW ZEALAND LIMITED (formerly called BT New Zealand Limited) of Level 7, Price Waterhouse Centre, 66 Wyndham Street, Auckland, New Zealand;

   B.T. INTERNATIONAL (DELAWARE), INC. c/o U.S. Corporation Company 1013 Centre Road, Wilmington, Delaware 19805, United States of America;

   DB NOMINEES (HONG KONG) LIMITED (formerly called BT Nominees (H.K.) Limited) of 36th Floor, Two Pacific Place, 88 Queensway, Hong Kong,

   ("each a VENDOR")

2. DEUTSCHE BANK AG (ARBN 064 165 162) of Level 28, 31 West 52nd Street, New York, New York 10005, United States of America (the "WARRANTOR").

3. BANKERS TRUST CORPORATION of BT Plaza, 130 Liberty Street, New York, New York 10005, United States of America (the "VENDORS' GUARANTOR").

4. PRINCIPAL FINANCIAL GROUP (AUSTRALIA) PTY LIMITED (ACN 087 480 313) (formerly of Level 17, 201 Miller Street, North Sydney, New South Wales, 2060, Australia and of Level 27, 530 Collins Street, Melbourne, Victoria, 3000, Australia) now of Level 15, The Chifley Tower, 2 Chifley Square, Sydney, New South Wales, Australia (the "PURCHASER").

5. PRINCIPAL FINANCIAL SERVICES, INC. of 711 High Street, Des Moines, IA 50392-0300, United States of America (the "PURCHASER'S GUARANTOR").

RECITALS

A. The parties are parties to a Share Sale Deed dated 17 June 1999 which was amended by a Deed of Amendment dated 31 August 1999 (the Share Sale Deed as so amended being hereinafter called "SHARE SALE DEED").

B. Clause 8 of the Share Sale Deed is unclear in its operation as Clause 8.1 contains representations, warranties and indemnities by the Warrantor only whereas the remaining provisions of Clause 8 contain references to the Warrantor and Vendors in circumstances consistent with the Clause 8.1 representations, warranties and indemnities being given by the Warrantor and the Vendors. The parties have agreed to clarify this in the manner set out in this Deed.

C. The parties wish to amend the Share Sale Deed and to record certain other matters relating to the transactions provided for in the Share Sale Deed.

IT IS AGREED AS FOLLOWS

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

Unless the context requires otherwise, terms which are defined in the Share Sale Deed shall have the same meaning in this Deed.

1.2 INTERPRETATION

Clause 1.2 of the Share Sale Deed shall apply to this Deed to the same extent as if set out in full in this Deed.

2. ADDITION OF VENDORS AS CO-WARRANTORS AND INDEMNITORS

2.1 REPLACEMENT OF CLAUSE 8.1 OF SHARE SALE DEED

Clause 8.1 of the Share Sale Deed is replaced with the following:

"8.1 WARRANTIES AND INDEMNITY BY THE WARRANTOR AND THE VENDORS

(a) The Warrantor and each of the Vendors jointly and severally represents and warrants to the Purchaser, the Purchasers Guarantor and the Purchaser Entities in the terms set out in Parts I and II of Schedule 4 and make no other warranties.

(b) Subject to the other provisions of this Clause 8, the Warrantor and each of the Vendors jointly and severally indemnifies the Purchaser against any Claim which is incurred or suffered by or brought or made or recovered against any Group Member or in respect of any Offshore FM Business and which constitutes a breach of the Warranties."

2.2 CONSEQUENTIAL AMENDMENTS TO CLAUSE 8 AND SCHEDULE 4

(a) In line 5 of Clause 8.6(e) after "Warrantor" insert "or the relevant Vendor (as applicable)".

(b) In line 1 of Clause 8.6(l) after "Warrantor" insert "or a Vendor".

(c) In line 2 of Clause 8.8 after "Warrantor" insert "and the Vendors".

(d) In line 2 of Clause 8.11 after "Warrantor" insert "and/or a Vendor".

(e) In line 1 of Clause 8.13(e) after "Warrantor" insert "or the Purchaser".

(f) In line 1 of Clause 8.14(b) after "Warrantor" insert "or a Vendor".

(g) In line 2 of Clause 8.14(c) after "Warrantor" insert "or a Vendor".

(h) In the heading of Part 1 of Schedule 4 after "Warrantor's" insert "and Vendors'".

(i) In line 2 of Clause 2.4 of Part 1 of Schedule 4 replace "is" with "and the Vendors are".

(j) In line 1 of Clause 6.3 of Part 1 of Schedule 4 replace "does" with "and the Vendors do".

(k) In line 5 of Clause 10.5 of Part 1 of Schedule 4 replace "is" with "and the Vendors are".

(l) In line 1 of Clause 10.6 of Part 1 of Schedule 4 replace "does" with "and the Vendors do".

(m) In line 1 of Clause 12.6 of Part II of Schedule 4 after "Warrantor" insert ", the Vendors".

(n) In line 1 of Clause 12.7 of Part II of Schedule 4 replace "is" with "and the Vendors are".

(o) In line 1 of Clause 12.8 of Part II of Schedule 4 replace "is" with "and the Vendors are".

2.3 Amendment of Clause 32 of Share Sale Deed

Clause 32 of the Share Sale Deed is amended as follows:

(a) in Clause 32(b):

(i) in line 1 after "Warrantor" insert "and each of Vendors jointly and severally";

(ii) in line 6 of Clause 32(b)(ii)(A) after "Warrantor" insert "or a Vendor"; and

(iii) in line 1 of Clause 32(b)(ii)(E) after "Warrantor" insert ", each Vendor";

(b) in line 1 of Clause 32(c)(i) after "Warrantor" insert "and each Vendor";

(c) in Clause 32(d):

(i) in line 1 after "Warrantor" insert "and/or the relevant Vendor"; and

(ii) in line 5 after "Warrantor" insert "or the relevant Vendor (as the case may be)".

2.4 Ratification and confirmation

In all other respects the parties ratify and confirm their obligations under the Share Sale Deed.

3. INDEMNITY IN RESPECT OF CERTAIN CLAIMS BY EMPLOYEES AND EX-EMPLOYEES OF THE FM BUSINESSES

3.1 Indemnity

The Warrantor and each of the Vendors jointly and severally indemnifies the Purchaser and each Purchaser Entity against any Claim which is incurred or suffered by or brought or made or recovered against any Group Member to the extent to which the Claim relates to a claim by an employee or ex-employee of the Group who is or was employed primarily in the conduct of the FM Businesses that he or she is entitled to have his or her entitlement to annual leave or long service leave calculated by reference to his or her total remuneration (i.e. salary plus bonus) for any year up to and including 30 June 2000 rather than by reference to his or her salary

only for any such year PROVIDED THAT this indemnity shall not indemnify the Purchaser for any amount which would have been included in an employee's or ex-employee's annual leave or long service leave entitlements if such entitlements had been calculated by reference to the employee's or ex-employee's salary only in any such year.

3.2 Limitation on liability and threshold

The maximum aggregate liability of the Warrantor and the Vendors under Clause 3.1 and under the Warranties for Claims of the type referred to in Clause 3.1 shall be $8,000,000 and the Warrantor and the Vendors will not be liable to the Purchaser under Clause 3.1 or under the Warranties for Claims of the type referred to in Clause 3.1 unless the amount of the Claim suffered or incurred by the Purchaser or the Group Members either alone or when aggregated with the amount of any other such Claims properly made against the Warrantor and/or the Vendors exceeds $1,000,000 and only to the extent of such excess up to the maximum aggregate liability of the Warrantor and the Vendors of $8,000,000.

3.3 Application of certain provisions of Clause 8 of Share Sale Deed

Clauses 8.6, (d), (e), (h)(i), (i), 8.10, 8.12, 8.13 and 8.14 of the Share Sale Deed shall apply (mutatis mutandis) to the indemnity set out in Clause 3.1.

4. CONFIRMATION OF APPLICATION OF CLAUSE 32 OF SHARE SALE DEED

4.1 Confirmation of Application of indemnity

Without any limitation whatsoever to the indemnity set out in Clause 32 of the Share Sale Deed the Warrantor and each of the Vendors confirms that to the extent that BTIA suffers or incurs any Claim in respect of matters which occurred or transactions which were entered into prior to Completion which were not specifically related to the FM Businesses that Claim will fall within the indemnity set out in Clause 32 of the Share Sale Deed and be subject to and governed by that Clause.

4.2 Acknowledgement

The Warrantor and each of the Vendors acknowledges that the Purchaser has agreed not to do detailed due diligence as part of the Completion Statement process in respect of the matters and transactions referred to in Clause 4.1 in reliance on the confirmation set out in that Clause.

5. COMPLETION STATEMENT

(a) With the exception of the matter raised in paragraph (b):

(i) all issues relating to the preparation of the Completion Statement have been agreed; and

(ii) the final Completion Statement is annexed hereto and marked "A" ("the Completion Statement") which includes a provision for interest amounting to $717,341 in respect to late lodgement, and payment of estimated income tax in respect to the 1999 income tax returns.

(b) The Completion Statement includes the following income tax return adjustments:

(i) BT Australia Holdings $28,943,924 adjustment to taxable income, (tax effect $10,419,812) in respect of thin capitalisation matters; and

(ii) BT Australia $29,682,608 adjustment to taxable income, (tax effect $10,685,739) in respect of cost base matters.

The Purchaser has agreed to procure that the relevant Group Member(s) lodge a ruling request with the Australian Taxation Office ("ATO") in respect of both of these adjustments. The Purchaser agrees that the Warrantor shall have carriage of such ruling request and shall grant the Warrantor access to such records of such Group Member(s) as shall be necessary to lodge the ruling request and shall provide such other assistance as the Warrantor may reasonably require in respect of the ruling request. The Purchaser will have the right to attend meetings and participate in discussions in respect of the ruling request. The Purchaser agrees to not unreasonably withhold consent to lodge the ruling request and to lodge the ruling request promptly after it has been prepared and that any monies that are refunded by the ATO in relation to the adjustments will be paid to the Warrantor forthwith upon receipt.

The Warrantor and each of the Vendors agree with the Purchaser, that any additional income tax interest or penalties as noted in paragraph 5 (a) (ii) above will be paid by the Warrantor, and any monies refunded by the ATO in relation to the adjustments will be paid to the Warrantor in a manner that any such adjustments do not adversely affect the Purchaser or any Group Member.

6. PATRICKS INFRASTRUCTURE BONDS ("PATRICKS")

The parties acknowledge that the Patricks transaction (including without limitation, all agreements, arrangements, documents and understandings relating to or connected with Patricks) represent part of the IB Businesses as defined in the Share Sale Deed.

EXECUTED AND DELIVERED AS A DEED

Each Attorney executing this Deed states that he or she has not received notice of the revocation or suspension of the power of attorney under which he or she does so.

SIGNED SEALED AND DELIVERED for and on behalf of BT INVESTMENTS (AUSTRALIA) LLC BT FOREIGN INVESTMENT CORPORATION DEUTSCHE NEW ZEALAND LIMITED BT INTERNATIONAL (DELAWARE) INC DB NOMINEES (HONG KONG) LIMITED BANKERS TRUST CORPORATION and DEUTSCHE BANK AG by its attorney in the presence of:	/s/ Robert Pride Signature Robert Pride Print Name New York Print place of execution

/s/ T.S. Link

SIGNED SEALED AND DELIVERED for and on behalf of PRINCIPAL FINANCIAL GROUP (AUSTRALIA) PTY LIMITED and PRINCIPAL FINANCIAL SERVICES, INC by its attorney in the presence of:	/s/ Karen E. Shaff Signature Karen E. Shaff Print Name Des Moines, Iowa U.S.A. Print place of execution

EXHIBIT 4.2

RIGHTS AGREEMENT

This Rights Agreement, dated as of _____ ____, 2001 (the "AGREEMENT"), between Principal Financial Group, Inc., a Delaware corporation (the "CORPORATION"), and _____, a _____ corporation (the "RIGHTS AGENT"),

WITNESSETH:

WHEREAS, the Board of Directors of the Corporation has authorized the issuance of one Right (as hereinafter defined) (subject to adjustment) with respect to each share of Common Stock (as hereinafter defined) of the Corporation issued between _____ ____, 2001 (the "RECORD DATE") (whether originally issued or delivered from the Corporation's treasury) and the earlier of the Distribution Date (as hereinafter defined) or the Expiration Date (as hereinafter defined) and, to the extent provided in Section 22 hereof, with respect to each such share issued after the Distribution Date and prior to the Expiration Date, each Right initially representing the right to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock, without par value, of the Corporation having the rights and preferences set forth in the Certificate of Designation attached hereto as Exhibit A, upon the terms and subject to the conditions hereinafter set forth (the "RIGHTS");

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "ACQUIRING PERSON" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of 10% or more of the shares of Common Stock of the Corporation then outstanding, but shall not include any Exempt Person. Notwithstanding the foregoing:

(i) no Person shall become an "ACQUIRING PERSON" as the result of an acquisition of shares of Common Stock by the Corporation which, by reducing the number of shares of Common Stock outstanding, increases the proportionate number of shares Beneficially Owned by such Person to 10% or more of the shares of Common Stock of the Corporation then outstanding, provided, however, that if a Person shall become the Beneficial Owner of 10% or more of the shares of Common Stock of the Corporation by reason of share purchases by the Corporation and shall, after such share purchases by the Corporation, become the Beneficial Owner of any additional shares of Common Stock of the Corporation (other than from the Corporation pursuant to a stock dividend or stock split), then such Person shall be deemed to be an "ACQUIRING PERSON" unless, upon becoming

the Beneficial Owner of such additional shares of Common Stock of the Corporation, such Person is not then the Beneficial Owner of 10% or more of the shares of Common Stock of the Corporation then outstanding;

(ii) if the Board of Directors of the Corporation determines in good faith that a Person who would otherwise be an "ACQUIRING PERSON" has become such inadvertently (including, without limitation, because (A) such Person was unaware that he or it Beneficially Owned a percentage of Common Stock that would otherwise cause such Person to be an "ACQUIRING PERSON" or (B) such Person was aware of the extent of his or its Beneficial Ownership but had no actual knowledge of the consequences of such Beneficial Ownership under this Agreement) and without any intention of changing or influencing control of the Corporation, and if such Person as promptly as practicable has divested or divests himself or itself of Beneficial Ownership of a sufficient number of shares of Common Stock so that such Person would no longer be an "ACQUIRING PERSON," then such Person shall not be deemed to be or to have become an "ACQUIRING PERSON" for any purposes of this Agreement; and

(iii) no Person shall become an "ACQUIRING PERSON" by virtue of beneficial ownership of Common Stock of the Corporation by any Affiliate and/or Associate of such Person, which Affiliate and/or Associate is deemed to be an Affiliate and/or Associate of such Person solely by reason of such Affiliate and/or Associate being a director or officer of the Corporation.

(b) "ACT" shall have the meaning set forth in Section 9(b) hereof.

(c) "ADJUSTMENT SHARES" shall have the meaning set forth in Section 11(a)(ii) hereof.

(d) "AFFILIATE" and "ASSOCIATE," when used with reference to any Person, shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), as in effect on the date of this Agreement.

(e) "AGREEMENT" shall have the meaning set forth in the first paragraph hereof.

(f) A Person shall be deemed the "BENEFICIAL OWNER" of and shall be deemed to "BENEFICIALLY OWN" any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing), or upon the

exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "BENEFICIAL OWNER" of, or to "BENEFICIALLY OWN," (A) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment or exchange, or (B) securities issuable upon exercise of Rights at any time prior to the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, or (C) securities issuable upon exercise of Rights from and after the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3(a) or Section 22 hereof ("ORIGINAL RIGHTS") or pursuant to Section 11(i) hereof in connection with an adjustment made with respect to any Original Rights;

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has or shares the right to vote or dispose of, including pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "BENEFICIAL OWNER" of, or to "BENEFICIALLY OWN," any security if the agreement, arrangement or understanding to vote such security (A) arises solely from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the Exchange Act and the applicable rules and regulations thereunder and (B) is not also then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person and with respect to which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy or consent as described in the proviso to subparagraph (ii) of this paragraph (f)) or disposing of such securities of the Corporation; provided, however, that nothing in this paragraph (f) shall cause a person engaged in business as an underwriter of securities to be the "BENEFICIAL OWNER" of, or to "BENEFICIALLY OWN," any securities acquired through such person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(g) "BOOK-ENTRY" shall mean an uncertificated book entry for the Corporation's Common Stock.

(h) "BUSINESS DAY" shall mean any day other than a Saturday, Sunday or day on which the Rights Agent is authorized or obligated by law or executive order to close.

(i) "CERTIFICATE OF DESIGNATION" shall mean the Certificate of Designation of Series A Junior Participating Preferred Stock setting forth the powers, preferences, rights, qualifications, limitations and restrictions of such series of preferred stock of the Corporation, a copy of which is attached hereto as Exhibit A.

(j) "CLOSE OF BUSINESS" on any given date shall mean 5:00 P.M., [___] time, on such date; provided, however, that if such date is not a Business Day, it shall mean 5:00 P.M., [___] time, on the next succeeding Business Day.

(k) "COMMON STOCK" when used with reference to the Corporation shall mean the Common Stock, par value $0.01 per share, of the Corporation. "COMMON STOCK" when used with reference to any Person other than the Corporation which is organized in corporate form shall mean the capital stock with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person or, if such Person is a Subsidiary of another Person, the Person which ultimately controls such first-mentioned Person and which has issued any such outstanding capital stock, equity securities or equity interests. "COMMON STOCK" when used with reference to any Person which is not organized in corporate form shall mean units of beneficial interest which (i) shall represent the right to participate generally in the profits and losses of such Person (including, without limitation, any flow-through tax benefits resulting from an ownership interest in such Person) and which (ii) shall be entitled to exercise the greatest voting power of such Person or, in the case of a limited partnership, shall have the power to remove the general partner or partners.

(l) "COMMON STOCK EQUIVALENTS" shall have the meaning set forth in Section 11(a)(iii) hereof.

(m) "CORPORATION" shall have the meaning set forth in the first paragraph of this Agreement.

(n) "CURRENT MARKET PRICE" shall have the meaning set forth in Section 11(d) hereof.

(o) "CURRENT VALUE" shall have the meaning set forth in Section 11(a)(iii) hereof.

(p) "DISTRIBUTION DATE" shall have the meaning specified in Section 3(a) hereof.

(q) "EQUIVALENT PREFERENCE STOCK" shall have the meaning set forth in Section 11(b) hereof.

(r) "EXCHANGE ACT" shall have the meaning specified in Section 1(d) hereof.

(s) "EXEMPT PERSON" means the Corporation, any Subsidiary of the Corporation, any employee benefit plan of the Corporation or any Subsidiary of the Corporation, or any Person organized, appointed or established by the Corporation or such Subsidiary as a fiduciary for or pursuant to the terms of any such employee benefit plan or for the purpose of funding any such plan or funding other employee benefits for employees of the Corporation or of any Subsidiary of the Corporation.

(t) "EXPIRATION DATE" shall have the meaning specified in Section 7(a) hereof.

(u) "FINAL EXPIRATION DATE" shall have the meaning specified in Section 7(a) hereof.

(v) "NASDAQ" shall have the meaning set forth in Section 11(d)(i) hereof.

(w) "ORIGINAL RIGHTS" shall have the meaning specified in Section 1(f)(i) hereof.

(x) "PERSON" shall mean any individual, firm, corporation, partnership, trust or other entity and shall include any successor (by merger or otherwise) of such entity.

(y) "PREFERRED STOCK" shall mean shares of Series A Junior Participating Preferred Stock, par value $1.00 per share, of the Corporation, having the rights, preferences and limitations set forth in the Certificate of Designation, and, to the extent there are not a sufficient number of shares of Series A Junior Participating Preferred Stock authorized to permit the full exercise of the then outstanding Rights, any other series of preferred stock of the Corporation designated for such purpose by the Board of Directors of the Corporation containing terms substantially similar to the terms of the Series A Junior Participating Preferred Stock.

(z) "PRINCIPAL PARTY" shall have the meaning set forth in Section 13(b) hereof.

(aa) "PURCHASE PRICE" shall have the meaning set forth in Section 4 hereof.

(bb) "RECORD DATE" shall have the meaning set forth in the WHEREAS clause at the beginning of this Agreement.

(cc) "REDEMPTION PRICE" shall have the meaning set forth in Section 23(a) hereof.

(dd) "RIGHT CERTIFICATE" shall have the meaning set forth in Section 3(a) hereof.

(ee) "RIGHTS" shall have the meaning set forth in the WHEREAS clause at the beginning of this Agreement.

(ff) "RIGHTS AGENT" shall have the meaning set forth in the first paragraph of this Agreement.

(gg) "SECTION 11(a)(ii) EVENT" shall have the meaning set forth in Section 11(a)(ii) hereof.

(hh) "SECTION 13 EVENT" shall have the meaning set forth in Section 13(a) hereof.

(ii) "SPREAD" shall have the meaning set forth in Section 11(a)(iii) hereof.

(jj) "STOCK ACQUISITION TIME" shall mean the time of occurrence of whichever of the following first occurs: (i) the first public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Corporation or an Acquiring Person that an Acquiring Person has become such or (ii) the communication to the Corporation (including, without limitation, to the directors of the Corporation) of any notice (including, without limitation, any written consent or notice related thereto) from the Acquiring Person indicating or reflecting that the Acquiring Person has become such.

(kk) "SUBSIDIARY" shall mean, with respect to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient, in the absence of contingencies, to elect a majority of the board of directors or other persons performing similar functions are at the time beneficially owned, directly or indirectly, by such Person, or otherwise controlled by such Person.

(ll) "SUBSTITUTION PERIOD" shall have the meaning set forth in Section 11(a)(iii) hereof.

(mm) "TRADING DAY" shall have the meaning set forth in Section 11(d)(i) hereof.

(nn) "VOTING STOCK" shall mean (i) the shares of Common Stock of the Corporation and (ii) any other shares of capital stock of the Corporation entitled to vote generally in the election of directors or entitled to vote together with the shares of Common Stock in respect of any merger, consolidation, sale of all or substantially all of the Corporation's assets, liquidation, dissolution or winding up.

Section 2. Appointment of Rights Agent. The Corporation hereby appoints the Rights Agent to act as agent for the Corporation and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Stock of the Corporation) in accordance with the terms and conditions

hereof, and the Rights Agent hereby accepts such appointment. The Corporation may from time to time act as co-Rights Agent or appoint such co-Rights Agents as it may deem necessary or desirable, upon 10 days' prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and shall in no event be liable for, the acts or omissions of any such co-Rights Agent. Any actions which may be taken by the Rights Agent pursuant to the terms of this Agreement may be taken by any such co-Rights Agent.

Section 3. Issue of Right Certificates.

(a) Until the earlier of the Close of Business on (i) the tenth day after the date on which the Stock Acquisition Time occurs, or (ii) the tenth Business Day (or such specified or unspecified later date on or after the Record Date as may be determined by action of the Board of Directors of the Corporation prior to such time as any Person becomes an Acquiring Person) after the commencement by any Person (other than an Exempt Person) of, or the first public announcement of the intention of any Person (other than an Exempt Person) to commence, a tender or exchange offer for an amount of Common Stock of the Corporation which, together with the shares of such stock already owned by such Person, constitutes 10% or more of the outstanding Common Stock of the Corporation (including any such date which is after the date of this Agreement and prior to the issuance of the Rights) (the earlier of (i) and (ii) being herein referred to as the "DISTRIBUTION DATE"), (x) the Rights will be evidenced (subject to the provisions of paragraph (b) of this Section 3) by the Book-Entries, or certificates, for shares of Common Stock of the Corporation registered in the names of the holders of Common Stock of the Corporation (which Book-Entries, or certificates, for Common Stock of the Corporation shall be deemed also to be certificates for Rights) and not by separate Book Entries, or Right Certificates, and (y) the Rights will be transferable only in connection with the transfer of the underlying Common Stock. As soon as practicable after the Distribution Date, the Rights Agent will send, by first-class, insured, postage-prepaid mail, to each record holder of Common Stock of the Corporation as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Corporation, a Right Certificate, in substantially the form of Exhibit B hereto (a "RIGHT CERTIFICATE"), evidencing one Right for each share of Common Stock of the Corporation so held, subject to adjustment and to the provisions of Section 14(a) hereof. As of the Close of Business on the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

(b) On the Record Date or as soon as practicable thereafter, the Corporation will send a copy of a Summary of Rights to Purchase Preferred Stock, in substantially the form attached hereto as Exhibit C, by first-class, postage-prepaid mail, to each record holder of its Common Stock as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Corporation. With respect to Book-Entries or certificates for Common Stock of the Corporation outstanding as of the Record

Date, until the earlier of the Distribution Date or the Expiration Date, the Rights will be evidenced by such Book-Entries or certificates for Common Stock together with the Summary of Rights. Until the earlier of the Distribution Date or the Expiration Date, the transfer of any Common Stock represented by a Book-Entry or the surrender for transfer of any certificate for Common Stock of the Corporation outstanding on the Record Date, with or without a copy of the Summary of Rights, shall also constitute the transfer of the Rights associated with the Common Stock represented by such Book-Entry or certificate.

(c) Certificates issued by the Corporation for Common Stock (whether upon transfer of outstanding Common Stock, original issuance or disposition from the Corporation's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date shall also be deemed to be certificates for the Rights and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

> This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement between the Corporation and _____, as it may be amended from time to time (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Corporation will mail to the holder of this certificate a copy of the Rights Agreement (as in effect on the date of mailing) without charge promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights beneficially owned by an Acquiring Person, or any Associate or Affiliate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Stock of the Corporation represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Stock of the Corporation shall also be the registered holders of the associated Rights, and the surrender for transfer of any of such certificates shall also constitute the transfer of the Rights associated with the Common Stock of the Corporation represented by such certificates.

Section 4. Form of Right Certificates. The Right Certificates (and the forms of election to purchase, certification and assignment to be printed on the reverse thereof) shall each be substantially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Corporation may deem appropriate and as are not inconsistent with

the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Sections 11 and 22 hereof, the Right Certificates, whenever distributed, shall be dated as of the Record Date and on their face shall entitle the holders thereof to purchase such number of one one-thousandths of a share of Preferred Stock as shall be set forth therein at the price per one one-thousandths of a share of Preferred Stock set forth therein (the "PURCHASE PRICE"), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided in this Agreement.

Section 5. Countersignature and Registration.

(a) The Right Certificates shall be executed on behalf of the Corporation manually or by facsimile by the Chief Financial Officer, the Treasurer, the Chief Executive Officer, the President or the Senior Vice President and General Counsel and also by the Chief Financial Officer, the Treasurer, the Secretary or any Assistant Secretary. The Right Certificates shall be countersigned by the Rights Agent manually and shall not be valid for any purpose unless so countersigned. In case any officer of the Corporation who shall have signed any of the Right Certificates shall cease to be such officer of the Corporation before countersignature by the Rights Agent and issuance and delivery by the Corporation, such Right Certificates, nevertheless, may be countersigned by the Rights Agent, and issued and delivered by the Corporation with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Corporation; and any Right Certificate may be signed on behalf of the Corporation by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Corporation to sign such Right Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at its principal office in [City], [State], books in any form or medium (including electronic media) for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced by each of the Right Certificates on its face and the date and certificate number of each of the Right Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates.

(a) Subject to the provisions of Sections 7(e) and 14 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the Expiration Date, any Right Certificate or Right Certificates may be transferred, split

up, combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase a like number of shares of Preferred Stock (or other securities, cash or assets, as the case may be) as the Right Certificate or Right Certificates surrendered then entitled such holder (or former holder in the case of a transfer) to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Right Certificate or Right Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate or Right Certificates to be transferred, split up, combined or exchanged at the principal office of the Rights Agent in [City], [State]. Neither the Rights Agent nor the Corporation shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate or Right Certificates until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Right Certificate or Right Certificates and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Corporation shall reasonably request. Thereupon the Rights Agent shall, subject to Sections 7(e) and 14 hereof, countersign and deliver to the Person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Corporation may require payment from the holders of Right Certificates of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of such Right Certificates.

(b) Upon receipt by the Corporation and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a valid Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Corporation and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Corporation will execute and deliver a new Right Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 7(e) hereof, the registered holder of any Right Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Sections 9(c), 11(a)(iii) and 23(a) hereof) in whole or in part at any time after the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase and certificate on the reverse side thereof duly executed, to the Rights Agent at the principal office of the Rights Agent in [City], [State], together with payment of the Purchase Price for each one one-thousandth of a share of Preferred Stock as to which the Rights are exercised, at or prior to the earliest of (i) the Close of Business on _____ ____, 2011

[10 years after Record Date] (the "FINAL EXPIRATION DATE"), (ii) the time at which the Rights are redeemed as provided in Section 23 or (iii) the time at which the Rights are exchanged as provided in Section 24 (the earliest of (i), (ii) and (iii) being herein referred to as the "EXPIRATION DATE").

(b) The Purchase Price for each one one-thousandth of a share of Preferred Stock issued pursuant to the exercise of a Right shall initially be $_____, shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Except as otherwise provided herein, upon receipt of a Right Certificate representing exercisable Rights, with the form of election to purchase and certificate duly executed, accompanied by payment (in cash, or by certified bank check or money order payable to the order of the Corporation) of the Purchase Price for the Preferred Stock (or other shares, securities, cash or other assets, as the case may be) to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of the Rights pursuant hereto in cash, or by certified bank check or money order payable to the order of the Corporation, the Rights Agent shall, subject to Section 20(k) hereof, (i) (A) promptly requisition from any transfer agent of the Preferred Stock (or make available, if the Rights Agent is the transfer agent for such shares) certificates for the number of shares of Preferred Stock to be purchased (and the Corporation hereby irrevocably authorizes its transfer agent to comply with all such requests), or (B) if the Corporation shall have elected to deposit the total number of shares of Preferred Stock issuable upon exercise of the Rights hereunder with a depositary agent, requisition from the depositary agent depositary receipts representing interests in such number of one one-thousandths of a share of Preferred Stock as are to be purchased (in which case certificates for the shares of Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depositary agent) and the Corporation hereby directs the depositary agent to comply with such request, (ii) when appropriate, requisition from the Corporation the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) promptly after receipt of such certificates or depositary receipts, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, and (iv) when appropriate, after receipt, promptly deliver such cash in lieu of fractional shares to or upon the order of the registered holder of such Right Certificate.

(d) In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person or any Affiliate or Associate of an Acquiring Person, (ii) a transferee of any such Acquiring Person (or of any such Affiliate or Associate) who becomes a transferee after such Acquiring Person becomes such or (iii) a transferee of any such Acquiring Person (or of any such Affiliate or Associate) who becomes a transferee prior to or concurrently with such Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from such Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Corporation has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action, and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Corporation shall use all reasonable efforts to ensure that the provisions of this Section 7(e) are complied with, but shall have no liability to any holder of Right Certificates or other Person as a result of its failure to make any determinations with respect to an Acquiring Person or any of its Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Corporation shall be obligated to undertake any action with respect to a registered holder of any Right Certificate upon the occurrence of any purported transfer or exercise as set forth in this Section 7 unless such registered holder shall have (i) completed and signed the certificate following the form of assignment or election to purchase set forth on the reverse side of the Right Certificate surrendered for such assignment or exercise and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Corporation shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Corporation or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Corporation shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Corporation otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Corporation, or shall, at the written request of the Corporation, destroy such canceled Right Certificates and in such case shall deliver a certificate of destruction thereof to the Corporation.

Section 9. Reservation and Availability of Capital Stock.

(a) The Corporation covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock (and, following the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, out of its authorized and unissued shares of Common Stock or other securities or out of its authorized and issued shares held in its treasury), the number of shares of Preferred Stock (and, following the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, Common Stock of the Corporation or other securities) that, as provided in this Agreement, will be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the Preferred Stock (and, following the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, Common Stock of the Corporation or other securities) issuable upon the exercise of Rights may be listed on any national securities exchange, the Corporation shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Corporation shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a)(ii) Event or a Section 13 Event in which the consideration to be delivered by the Corporation upon exercise of the Rights has been determined in accordance with this Agreement, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act of 1933, as amended (the "ACT"), with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities and (B) the Expiration Date. The Corporation will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. The Corporation may, acting by resolution of its Board of Directors, temporarily suspend, for a period of time not to exceed 90 days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Corporation shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction if the requisite qualifications in such jurisdiction shall not have been obtained.

(d) The Corporation covenants and agrees that it will take all such action as may be necessary to ensure that all one one-thousandths of a share of Preferred Stock (and, following the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, Common Stock of the Corporation or other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable.

(e) The Corporation further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any shares of Preferred Stock (or shares of Common Stock of the Corporation or other securities, as the case may be) upon the exercise of Rights. The Corporation shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Right Certificates to a Person other than, or the issuance or delivery of certificates or depositary receipts for shares of Preferred Stock (or shares of Common Stock of the Corporation or other securities, as the case may be) in a name other than that of, the registered holder of the Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for shares of Preferred Stock (or Common Stock of the Corporation or other securities, as the case may be) or depositary receipts for Preferred Stock upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Corporation's satisfaction that no such tax is due.

Section 10. Preferred Stock Record Date. Each person in whose name any certificate for a number of one one-thousandths of a share of Preferred Stock (or shares of Common Stock of the Corporation or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of shares of Preferred Stock (or shares of Common Stock of the Corporation or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Corporation's transfer books for the Preferred Stock (or Common Stock or other securities, as the case may be) are closed, such Person shall be deemed to have become the record holder of such shares (fractional and otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the Corporation's transfer books for the Preferred Stock (or Common Stock or other securities, as the case may be) are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate shall not be entitled to any rights of a stockholder of the Corporation with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any

preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Corporation, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. The Purchase Price, the number and kind of shares, or fractions thereof, covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Corporation shall at any time after the date of this Agreement (A) declare or pay a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock into a greater number of shares, (C) combine or consolidate the outstanding Preferred Stock into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Corporation is the continuing or surviving corporation), except as otherwise provided in Section 7(e) and this Section 11(a), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of Preferred Stock or capital stock, as the case may be, issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the Purchase Price then in effect, the aggregate number and kind of shares of Preferred Stock or capital stock, as the case may be, which, if such Right had been exercised immediately prior to such date and at a time when the Preferred Stock or capital stock, as the case may be, transfer books of the Corporation were open, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both Section 11(a)(i) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

(ii) In the event (a "SECTION 11(a)(ii) EVENT") that any Person, alone or together with its Affiliates and Associates, shall become an Acquiring Person, then each holder of a Right, except as provided below and in Section 7(e) hereof, shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of one one-thousandths of a share of Preferred Stock, such number of shares of Common Stock of the Corporation as shall equal the result obtained by (x) multiplying the then current Purchase Price by the number of one one-thousandths of a share of Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of such Section 11(a)(ii) Event, whether or not such Right was then exercisable, and (y) dividing that product (which, following such first occurrence, shall thereafter be adjusted as appropriate in accordance with Section 11(f) hereof and, as so adjusted, shall be referred to as the "PURCHASE PRICE" for each Right and for all purposes of this Agreement) by

50% of the Current Market Price per share of the Common Stock of the Corporation on the date of such first occurrence (such number of shares being hereinafter referred to as the "ADJUSTMENT SHARES"). The Corporation shall notify the Rights Agent as to any Persons who are deemed by the Corporation to be Acquiring Persons or Associates, Affiliates or transferees (as described in subparagraphs (ii) and (iii) of Section 7(e) hereof) of such Persons and shall identify any Rights pertaining thereto.

(iii) In lieu of issuing shares of Common Stock of the Corporation in accordance with Section 11(a)(ii) hereof, the Corporation, acting by resolution of its Board of Directors, may, and, in the event that the number of shares of Common Stock which are authorized by the Corporation's Certificate of Incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit exercise in full of the Rights in accordance with Section 11(a)(ii) hereof, the Corporation, acting by resolution of its Board of Directors, shall (A) determine the excess of (1) the value of the Adjustment Shares issuable upon the exercise of a Right (the "CURRENT VALUE"), over (2) the Purchase Price attributable to each Right (such excess, the "SPREAD") and (B) with respect to each Right (subject to Section 7(e) hereof), make adequate provision to substitute for all or any part of the Adjustment Shares, upon payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) Preferred Stock or other equity securities of the Corporation (including, without limitation, shares, or units of shares, of preferred stock which the Board of Directors of the Corporation has deemed to have the same value as shares of Common Stock of the Corporation (such Preferred Stock or shares or units of preferred stock hereinafter called "COMMON STOCK EQUIVALENTS")), (4) debt securities of the Corporation, (5) other assets or (6) any combination of the foregoing, which, when combined with the Adjustment Shares (if any) to be issued, has an aggregate value equal to the Current Value, where such aggregate value has been determined by action of the Board of Directors of the Corporation based upon the advice of a nationally recognized investment banking firm selected by the Board of Directors of the Corporation; provided, however, if the Corporation shall not have made adequate provision to deliver value pursuant to clause (B) above within 30 days following the first occurrence of a Section 11(a)(ii) Event, then the Corporation shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock of the Corporation (to the extent available) and then, if necessary, cash, which shares or cash have an aggregate value equal to the Spread. If, after the occurrence of a Section 11(a)(ii) Event, the number of shares of Common Stock that are authorized by the Corporation's certificate of incorporation but not outstanding or reserved for issuance for purposes other than upon exercise of the Rights are not sufficient to permit exercise in full of the Rights in accordance with Section 11(a)(ii) hereof and the Corporation, acting by resolution of its Board of Directors, shall determine in good faith that it is likely that sufficient additional shares of its Common Stock could be authorized for issuance upon exercise in full of the Rights, the 30 day period set forth above may be extended to the extent necessary, but not more than 90 days after the

occurrence of such Section 11(a)(ii) Event, in order that the Corporation may seek stockholder approval for the authorization of such additional shares (such period as it may be extended, the "SUBSTITUTION PERIOD"). To the extent that the Corporation determines that some action is to be taken pursuant to the terms of this Section 11(a)(iii), the Corporation (x) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek such stockholder approval for the authorization of additional shares or to decide the appropriate form of distribution to be made pursuant to the first sentence of this Section 11(a)(iii) and to determine the value thereof. In the event of any such suspension, the Corporation shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Stock of the Corporation shall be the Current Market Price per share of the Common Stock of the Corporation on the date of the first occurrence of the Section 11(a)(ii) Event, and the per share or per unit value of any Common Stock Equivalents shall be deemed to equal the Current Market Price per share of the Common Stock of the Corporation on such date.

(b) In the event that the Corporation shall fix a record date for the issuance of rights, options or warrants to all holders of shares of Preferred Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preferred Stock (or shares having the same rights, privileges and preferences as the shares of Preferred Stock ("EQUIVALENT PREFERENCE STOCK")) or securities convertible into shares of Preferred Stock or Equivalent Preference Stock at a price per share of Preferred Stock or Equivalent Preference Stock (or having a conversion price per share, if a security convertible into shares of Preferred Stock or Equivalent Preference Stock) less than the Current Market Price per share of the Preferred Stock (as defined in Section 11(d)) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Preferred Stock outstanding on such record date plus the number of additional shares of Preferred Stock and/or Equivalent Preference Stock which the aggregate offering price of the total number of shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Current Market Price, and the denominator of which shall be the number of shares of Preferred Stock outstanding on such record date plus the number of additional shares of Preferred Stock or Equivalent Preference Stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Corporation, whose determination shall be described in a statement filed with the Rights Agent. Such adjustment shall be made successively

whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Corporation shall fix a record date for the making of a distribution to all holders of Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Corporation is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular periodic cash dividend or a dividend payable in Preferred Stock, but including any dividend payable in stock other than Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Current Market Price per share of Preferred Stock on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Corporation, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one share of Preferred Stock, and the denominator of which shall be such Current Market Price per share of Preferred Stock. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, the "CURRENT MARKET PRICE" per share of Common Stock of the Corporation on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock of the Corporation for the 30 consecutive Trading Days immediately prior to such date; provided, however, that in the event that the Current Market Price per share of Common Stock of the Corporation is determined during a period following the announcement by the issuer of such Common Stock of (A) a dividend or distribution on such Common Stock payable in shares of such Common Stock or securities convertible into such Common Stock (other than the Rights) or (B) any subdivision, combination or reclassification of such Common Stock, and prior to the expiration of the 30 Trading Days after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, as the case may be, then, and in each such case, the Current Market Price shall be appropriately adjusted to take into account the ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock of the Corporation are not listed or admitted to trading on the New York Stock Exchange, as reported in the

principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock of the Corporation are listed or admitted to trading or, if the shares of Common Stock of the Corporation are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or such other system then in use, or, if on any such date the shares of Common Stock of the Corporation are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in shares of Common Stock of the Corporation selected by the Corporation, acting by resolution of the Board of Directors of the Corporation, or, if on any such date no market maker is making a market in shares of Common Stock of the Corporation, the fair value of such shares on such date as determined in good faith by the Corporation, acting by resolution of the Board of Directors of the Corporation (which determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes). The term "TRADING DAY" shall mean a day on which the principal national securities exchange on which the shares of Common Stock of the Corporation are listed or admitted to trading is open for the transaction of business or, if the shares of Common Stock of the Corporation are not listed or admitted to trading on any national securities exchange, a Business Day.

(ii) For the purpose of any computation hereunder, the "CURRENT MARKET PRICE" per share of Preferred Stock shall be determined in the same manner as set forth for the Common Stock of the Corporation in Section 11(d)(i) hereof (other than the last clause of the second sentence thereof). If the Current Market Price per share of Preferred Stock cannot be determined in the manner provided above or if the Preferred Stock is not publicly held or listed or traded in a manner described in Section 11(d)(i) hereof, the Current Market Price per share of Preferred Stock shall be conclusively deemed to be an amount equal to 1000 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock of the Corporation occurring after the date of this Agreement) multiplied by the Current Market Price per share of the Common Stock of the Corporation. If neither the Common Stock of the Corporation nor the Preferred Stock is publicly held or so listed or traded, the Current Market Price per share of Preferred Stock shall mean the fair value per share as determined in good faith by the Corporation, acting by resolution of its Board of Directors, whose determination shall be described in a statement filed with Rights Agent and shall be conclusive for all purposes. For all purposes of this Agreement, the Current Market Price of one one-thousandth of a share of Preferred Stock shall be equal to the Current Market Price of one share of Preferred Stock divided by 1000.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by

reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a share of Common Stock or other share or the nearest one-millionth of a share of Preferred Stock, as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which mandates such adjustment or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Corporation other than Preferred Stock, thereafter the Purchase Price and the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m) inclusive, and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Preferred Stock shall apply on like terms to any such other shares; provided, however, that the Corporation shall not be liable for its inability to reserve and keep available for issuance upon exercise of the Rights pursuant to Section 11(a)(ii) a number of shares of its Common Stock greater than the number then authorized by the Certificate of Incorporation of the Corporation but not outstanding or reserved for any other purpose.

(g) All Rights originally issued by the Corporation subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-thousandths of a share of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Corporation shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Section 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-thousandths of a share of Preferred Stock (calculated to the nearest one-millionth of a share of Preferred Stock) obtained by (i) multiplying (A) the number of one one-thousandths of a share covered by a Right immediately prior to such adjustment of the Purchase Price by (B) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Corporation may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number of one one-thousandths of a share of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number

of Rights shall be exercisable for the number of one one-thousandths of a share of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one-hundred-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Corporation shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Corporation shall, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Corporation, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Corporation, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Corporation, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of shares of Preferred Stock, or fraction thereof, issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-thousandth of a share and the number of shares which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value, if any, of the one one-thousandth of a share of Preferred Stock issuable upon exercise of the Rights, the Corporation shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Corporation may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date the Preferred Stock, or a fraction thereof,

and other capital stock or securities of the Corporation, if any, issuable upon such exercise over and above the Preferred Stock and other capital stock or securities of the Corporation, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Corporation shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or securities upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Corporation, acting by resolution of its Board of Directors shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any consolidation or subdivision of the Preferred Stock, issuance wholly for cash of any Preferred Stock at less than the Current Market Price, issuance wholly for cash of Preferred Stock or securities which by their terms are convertible into or exchangeable for Preferred Stock, stock dividends or issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Corporation to holders of its Preferred Stock shall not be taxable to such stockholders.

(n) The Corporation covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Corporation in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Corporation in a transaction which complies with Section 11(o) hereof) or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction or a series of related transactions, assets, cash flow or earning power aggregating more than 50% of the assets, cash flow or earning power of the Corporation and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Corporation or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof) if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the stockholders of the Person who constitutes, or would constitute, the "PRINCIPAL PARTY" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Corporation covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 23, Section 24 or Section 27 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or eliminate the benefits intended to be afforded by the Rights.

(p) Anything in this Agreement to the contrary notwithstanding, in the event the Corporation shall at any time after the date of this Agreement and prior to the Distribution Date (i) declare or pay any dividend on its Common Stock payable in Common Stock of the Corporation or (ii) subdivide its outstanding Common Stock into a greater number of shares (by reclassification or otherwise than by payment of dividends in Common Stock) or (iii) combine or consolidate its outstanding Common Stock into a smaller number of shares, then in any such case, (x) the number of one one-thousandths of a share of Preferred Stock purchasable after such event upon proper exercise of each Right shall be determined by multiplying the number of one one-thousandths of a share of Preferred Stock so purchasable immediately prior to such event by a fraction, the numerator of which is the number of shares of Common Stock of the Corporation outstanding immediately before such event and the denominator of which is the number of shares of such Common Stock outstanding immediately after such event and (y) action shall be taken such that each share of Common Stock of the Corporation outstanding immediately after such event shall have issued with respect to it that number of Rights which each share of Common Stock of the Corporation outstanding immediately prior to such event had issued with respect to it. The adjustments provided for in this Section 11(p) shall be made successively whenever such a dividend is declared or paid or such a subdivision, combination or consolidation is effected. If an event occurs which would require an adjustment under Section 11(a)(ii) and this Section 11(p), the adjustments provided for in this Section 11(p) shall be in addition and prior to any adjustment required pursuant to Section 11(a)(ii).

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Sections 11 and 13, the Corporation shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for its Common Stock and Preferred Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate (or if prior to the Distribution Date, to each holder of a certificate representing shares of its Common Stock) in accordance with Section 26 of this Agreement. Notwithstanding the foregoing sentence, the failure of the Corporation to make such certificates or give such notice shall not affect the validity or the force or effect of the requirement for such adjustment. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained. Any adjustment to be made pursuant to Sections 11 and 13 shall be effective as of the date of the event giving rise to such adjustment.

Section 13. Consolidation, Merger or Sale or Transfer of Assets, Cash Flow or Earning Power.

(a) In the event (a "SECTION 13 EVENT") that, following the Stock Acquisition Time, directly or indirectly, (x) the Corporation shall consolidate or otherwise combine

with or merge with or into, any other Person (other than a wholly owned Subsidiary of the Corporation in a transaction which complies with Section 11(o) hereof) and the Corporation shall not be the surviving or continuing corporation of such consolidation, combination or merger, (y) any Person (other than a wholly owned Subsidiary of the Corporation in a transaction which complies with Section 11(o) hereof) shall consolidate or otherwise combine with or merge with or into the Corporation and the Corporation shall be the surviving or continuing corporation of such consolidation, combination or merger and, in connection therewith, all or part of the Common Stock of the Corporation shall be changed into or exchanged for stock or other securities of the Corporation or any other Person or cash or any other property or (z) the Corporation shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets, cash flow or earning power aggregating more than 50% of the assets, cash flow or earning power of the Corporation and its Subsidiaries (taken as a whole and calculated on the basis of the Corporation's most recent regularly prepared financial statement) to any other Person or Persons (other than the Corporation or any wholly owned Subsidiary of the Corporation in one or more transactions each of which complies with Section 11(o) hereof), then, and in each such case (except as provided in Section 13(d) hereof), proper provision shall be made so that (i) each holder of a Right (except as provided in Section 7(e) hereof) shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, nonassessable and freely tradable shares of Common Stock of the Principal Party (as hereinafter defined), not subject to any liens, encumbrances, rights of call, rights of first refusal or other adverse claims, as shall be equal to the result obtained by dividing the then current Purchase Price by 50% of the Current Market Price per share of Common Stock of such Principal Party on the date of consummation of such merger, consolidation, sale or transfer (provided that the Purchase Price and the number of shares of Common Stock of such Principal Party so receivable upon exercise of a Right shall, from and after such Section 13 Event, be subject to further adjustment in accordance with Section 11(f) hereof to reflect any events occurring in respect of the Common Stock of such Principal Party after the occurrence of such Section 13 Event); (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Corporation pursuant to this Agreement; (iii) the term "CORPORATION" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock in accordance with Section 9 hereof) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be possible, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "PRINCIPAL PARTY" shall mean:

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a) hereof: (A) the Person that is the issuer of any securities into which shares of Common Stock of the Corporation are converted in such merger or consolidation, or (B) if no securities are so issued, (x) the Person that is the other party to such merger, if such Person survives such merger, or (y) if the Person that is the other party to the merger does not survive the merger, the Person that does survive the merger (including the Corporation if it survives) or (z) the Person resulting from the consolidation; and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a) hereof, the Person that is the party receiving the greatest portion of the assets, cash flow or earning power transferred pursuant to such transaction or transactions;

provided, however, that in any such case, (1) if the Common Stock of such Person is not at such time and has not been continuously over the preceding 12 month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, "PRINCIPAL PARTY" shall refer to such other Person; and (2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stocks of two or more of which are and have been so registered, "PRINCIPAL PARTY" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest aggregate market value.

(c) The Corporation shall not consummate any Section 13 Event unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Corporation and such issuer shall have executed and delivered to the Rights Agent a supplemental agreement containing the provisions set forth in paragraphs (a) and (b) of this Section 13 and further providing that, as soon as practicable after the date of any such Section 13 Event, the Principal Party will:

(i) prepare and file a registration statement under the Act with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form and will use its best efforts to cause such registration statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Act) until the Expiration Date; and

(ii) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter, subject to Section 7(e) hereof, become exercisable in the manner described in Section 13(a) hereof.

(d) The Corporation covenants and agrees that it will not, after the occurrence of a Section 11(a)(ii) Event, engage in any Section 13 Event if at the time of or after such event there are any charter or by-law provisions or any rights, warrants or other instruments outstanding or any other action taken which would diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

Section 14. Fractional Rights and Fractional Shares.

(a) The Corporation shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractions of Rights would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price of the Rights for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use, or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights (selected by the Corporation, acting by resolution of its Board of Directors). If on any such date no such market maker is making a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Corporation, acting by resolution of its Board of Directors shall be used.

(b) The Corporation shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock). Fractions of Preferred Stock in integral multiples of one one-thousandth of a share of Preferred Stock may, at the election of the Corporation, be evidenced by depositary receipts, pursuant to an appropriate agreement between the Corporation and a depositary selected by it, provided that such agreement shall provide that the holders of depositary receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Stock. In lieu of fractional shares which are not integral multiples of one one-thousandth of a share of Preferred Stock, the Corporation shall pay to the registered holders of Right Certificates at the time such Right Certificates are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one share of Preferred Stock. For purposes of this Section 14(b), the current market value of a share of Preferred Stock shall be the closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)(ii) hereof) for the Trading Day immediately prior to the date of such exercise.

(b) Following the occurrence of a Section 11(a)(ii) Event or a Section 13 Event, the Corporation shall not be required to issue fractions of shares of its Common Stock upon exercise of the Rights or to distribute certificates or Book-Entries which evidence fractional shares of its Common Stock. In lieu of fractional shares of its Common Stock, the Corporation may pay to the registered holders of Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one share of its Common Stock. For purposes of this Section 14(c), the current market value of one share of Common Stock of the Corporation shall be the closing price of one share of Common Stock of the Corporation (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) The holder of a Right by the acceptance of the Right expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement, except the rights of action vested in the Rights Agent pursuant to Section 18 hereof, are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the registered holders of Common Stock of the Corporation); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of Common Stock of the Corporation), without the consent of the Rights Agent or of any holder of any other Right Certificate (or, prior to the Distribution Date, of Common Stock of the Corporation) may, in his own behalf and for his own benefit, enforce, and may institute

and maintain any suit, action or proceeding against the Corporation to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations hereunder and injunctive relief against actual or threatened violations of the obligations of any Person subject to this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting such Right consents and agrees with the Corporation and the Rights Agent and with every other holder of a Right that:

(a) prior to the Close of Business on the earlier of the Distribution Date or the Expiration Date, the Rights shall be evidenced by the Book-Entries or certificates for shares of Common Stock of the Corporation registered in the name of the holders of such shares (which Book-Entries or certificates for shares of Common Stock of the Corporation shall also constitute certificates for Rights) and each Right will be transferable only in connection with the transfer of Common Stock of the Corporation;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the principal office of the Rights Agent, duly endorsed or accompanied by a proper instrument of transfer;

(c) the Corporation and the Rights Agent may deem and treat the Person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Stock Book-Entry or certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificate or the associated Common Stock certificate made by anyone other than the Corporation or the Rights Agent) for all purposes whatsoever, and neither the Corporation nor the Rights Agent shall be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Corporation nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the Corporation must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Right Certificate Holder Not Deemed a Stockholder. No holder, as such, of any Right or Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the number of one one-thousandths of a share of Preferred Stock or any other securities of the Corporation which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right or Right Certificate, as such, any of the rights of a stockholder of the Corporation or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 24), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

(a) The Corporation agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Corporation also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Right Certificate or certificate for Preferred Stock or Common Stock of the Corporation or for other securities of the Corporation, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged by the proper Person or Persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the

successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, however, that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. The purchase of all or substantially all of the Rights Agent's assets employed in the performance of transfer agent activities shall be deemed a merger or consolidation for purposes of this Section 19. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Corporation and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel selected by it (which may be legal counsel for the Corporation), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of an Acquiring Person and the determination of the Current Market Price per share of Preferred Stock and Common Stock) be proved or established by the Corporation prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the Chief Executive Officer, the President (if any) or the Senior Vice President and General Counsel and by the Treasurer or the Secretary of the

Corporation and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Corporation only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Corporation of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any adjustment required under the provisions of Section 11 or Section 13 or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such adjustment); nor shall it be responsible for any determination by the Board of Directors of the Corporation of the Current Market Price of the Preferred Stock or Common Stock of the Corporation; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock of the Corporation or Preferred Stock or other securities to be issued pursuant to this Agreement or any Right Certificate or as to whether any shares of Preferred Stock or Common Stock of the Corporation or other securities will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Corporation agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the Chief Executive Officer, the President (if any), the Senior Vice President and General Counsel, the Secretary or the Treasurer of the Corporation, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any

action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Corporation or become pecuniarily interested in any transaction in which the Corporation may be interested, or contract with or lend money to the Corporation or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Corporation or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, omission, default, neglect or misconduct of any such attorneys or agents or for any loss to the Corporation or to holders of the Rights resulting from any such act, omission, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured for it.

(k) If, with respect to any Right Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Corporation.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Corporation and to each transfer agent of the Common Stock of the Corporation and Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. The Corporation may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock of the Corporation and Preferred Stock by registered or certified mail, and to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Corporation shall appoint a successor to the Rights Agent. If the Corporation shall

fail to make such appointment within a period of 30 days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Corporation), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Corporation or by such a court, shall be a corporation organized and doing business under the laws of the United States or of the State of _____ (or of any other state of the United States so long as such corporation is authorized to do business as a banking institution in the State of _____), in good standing, having a principal office in the State of _____, which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least $50 million. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Corporation shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of its Common Stock and Preferred Stock, and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Corporation may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by resolution of its Board of Directors, to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares of stock or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of shares of its Common Stock following the Distribution Date (other than upon exercise of a Right) and prior to the Expiration Date, the Corporation (a) shall, with respect to shares of Common Stock so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement, or upon the exercise, conversion or exchange of securities, notes or debentures issued by the Corporation, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Corporation, issue Right Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Right Certificate shall be issued if and to the extent that the Corporation shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Corporation or

the Person to whom such Right Certificate would be issued and (ii) no such Right Certificate shall be issued if and to the extent that appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption.

(a) The Corporation may, by resolution of its Board of Directors, at its option, at any time prior to the earlier of (x) the Stock Acquisition Time or (y) the Close of Business on the Final Expiration Date, redeem all but not less than all of the then outstanding Rights at a redemption price of $.001 per Right (payable in cash, shares of Common Stock (based on the Current Market Price of the Common Stock at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors of the Corporation), appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "REDEMPTION PRICE").

(b) Immediately upon the action of the Board of Directors of the Corporation ordering the redemption of the Rights (or at such time subsequent to such action as the Board of Directors may determine), and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. Within 10 days after the action of the Board of Directors ordering the redemption of the Rights, the Corporation shall give notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock of the Corporation. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. Neither the Corporation nor any of its Affiliates or Associates may redeem, acquire or purchase any Rights at any time in any manner other than that specifically set forth in this Section 23 or Section 24 hereof and other than in connection with the repurchase of Common Stock of the Corporation prior to the Distribution Date.

Section 24. Exchange.

(a) The Board of Directors of the Corporation may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "EXCHANGE RATIO"). Notwithstanding

the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Person (other than an Exempt Person), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the shares of Common Stock then outstanding.

(b) Immediately upon the action of the Board of Directors of the Corporation ordering the exchange of any Rights pursuant to paragraph (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Corporation shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Corporation promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the shares of Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In any exchange pursuant to this Section 24, the Corporation, at its option, may substitute shares of Preferred Stock (or any other series of preferred stock of the Corporation containing terms substantially similar to the terms of the Preferred Stock) for some or all of the shares of Common Stock exchangeable for Rights, at the initial rate of one one-thousandth of a share of Preferred Stock (or of such other series of preferred stock of the Corporation) for each share of Common Stock, as appropriately adjusted to reflect adjustments in the voting rights of the Preferred Stock pursuant to the terms thereof, so that the fraction of a share of Preferred Stock (or of such other series of preferred stock of the Corporation) delivered in lieu of each share of Common Stock shall have the same voting rights as one share of Common Stock.

(d) In the event that there shall not be sufficient shares of Common Stock or Preferred Stock (or any other series of preferred stock of the Corporation containing terms substantially similar to the terms of the Preferred Stock) issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Corporation shall take all such action as may be necessary to authorize additional shares of Common Stock or Preferred Stock (or such other series of preferred stock of the Corporation) for issuance upon exchange of the Rights.

(e) The Corporation shall not be required to issue fractions of shares of Common Stock or to distribute Book-Entries or certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares, the Corporation shall pay to the registered holders of the Right Certificates with regard to which such fractional shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole share of Common Stock. For the purposes of this paragraph (d), the current market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to the second sentence of Section 11(d) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

Section 25. Notice of Certain Events.

(a) In case the Corporation shall at any time after the earlier of the Distribution Date or the Stock Acquisition Time propose (i) to pay any dividend payable in stock of any class to the holders of its Preferred Stock or to make any other distribution to the holders of its Preferred Stock (other than a regular periodic dividend out of earnings or retained earnings of the Corporation), or (ii) to offer to the holders of Preferred Stock options, rights or warrants to subscribe for or to purchase any additional Preferred Stock or shares of stock of any class or any other securities, rights or options, or (iii) to effect any reclassification of the Preferred Stock (other than a reclassification involving only the subdivision of outstanding shares of Preferred Stock), or (iv) to effect any merger, consolidation or other combination into or with, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets, cash flow or earning power of the Corporation and its Subsidiaries (taken as a whole) to, any other Person, or (v) to effect the liquidation, dissolution or winding up of the Corporation, then, in each such case, the Corporation shall give to each holder of a Right, in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend or distribution of rights or warrants, or the date on which such reclassification, merger, consolidation, combination, sale, transfer, liquidation, dissolution or winding up is to take place and the date of participation therein by the holders of Common Stock of the Corporation or Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty days prior to the record date for determining holders of Preferred Stock for purposes of such action, and in the case of any such other action, at least twenty days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Common Stock of the Corporation or Preferred Stock, whichever shall be the earlier. The failure to give notice required by this Section 25 or any defect therein shall not affect the legality or validity of the action taken by the Corporation or the vote upon any such action.

(b) In case any of the events set forth in Section 11(a)(ii) or Section 13(a) of this Agreement shall occur, then, in any such case, (i) the Corporation shall as soon as practicable thereafter give to each holder of a Right, to the extent feasible and in accordance with Section 26, a notice of the occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) or Section 13(a) hereof, and (ii) all references in Section 25(a) hereof to Preferred Stock shall be deemed thereafter to refer also to Common Stock or other securities issuable in respect of the Rights.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Corporation shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Principal Financial Group, Inc.
711 High Street
Des Moines, Iowa 50932
Attention: Corporate Secretary

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Corporation or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Corporation) as follows:

[Rights Agent]
[Suite #]
[Address]
[City, State Zip]
Attention: [_____]

Notices or demands authorized by this Agreement to be given or made by the Corporation or the Rights Agent to the holder of any Right Certificate (or if prior to the Distribution Date to each holder of a certificate representing shares of Common Stock of the Corporation) shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such Right holder (or if prior to the Distribution Date to such holder of Common Stock of the Corporation) at the address of such holder as shown on the registry books of the Corporation.

Section 27. Supplements and Amendments. Prior to the Stock Acquisition Time and subject to the penultimate sentence of this Section 27, the Corporation may, by resolution of its Board of Directors, and the Rights Agent shall, if the Corporation so

directs, supplement or amend any provision of this Agreement in any respect whatsoever (including, without limitation, any extension of the period in which the Rights may be redeemed) without the approval of any holders of certificates representing shares of Common Stock of the Corporation. From and after the Stock Acquisition Time and subject to the penultimate sentence of this Section 27, without the approval of any holders of certificates representing shares of Common Stock of the Corporation or of Right Certificates, the Corporation may, by resolution of its Board of Directors, and the Rights Agent shall, if the Corporation so directs, supplement or amend this Agreement in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder or (iv) to change or supplement or make any other provisions in any manner which the Corporation may deem necessary or desirable, which shall not adversely affect the interests of, or diminish substantially or eliminate the benefits intended to be afforded by the Rights to, the holders of Right Certificates (other than an Acquiring Person or an Affiliate or Associate of any such Person); provided, however, that this Agreement may not be supplemented or amended to lengthen, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed or to modify the ability (or inability) of the Board of Directors of the Corporation to redeem the Rights, in either case at such time as the Rights are not then redeemable or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of or the benefits to the holders of Rights (other than an Acquiring Person or an Affiliate or Associate of any such Person). Upon the delivery of a certificate from an appropriate officer of the Corporation which states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made which changes the Redemption Price or the Final Expiration Date. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Stock.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Corporation or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board of Directors, etc.

(a) For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Corporation shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically

granted to such Board of Directors, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including, without limitation, a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board of Directors of the Corporation or the Corporation in good faith, (x) shall be final, conclusive and binding on the Corporation, the Rights Agent, the holders of the Right Certificates and all other parties and (y) shall not subject the Board of Directors of the Corporation to any liability to the holders of the Rights and Right Certificates.

(b) Nothing contained in this Agreement shall be deemed to be in derogation of the obligation of the Board of Directors of the Corporation to exercise its fiduciary duty. Without limiting the foregoing, nothing contained in this Agreement shall be construed to suggest or imply that the Board of Directors of the Corporation shall not be entitled to reject any tender offer, or to take any other action (including, without limitation, the commencement, prosecution, defense or settlement of any litigation and the submission of additional or alternative offers or other proposals) with respect to any tender offer that the Board of Directors believes is necessary or appropriate in the exercise of such fiduciary duty.

Section 30. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Corporation, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, registered holders of the Common Stock of the Corporation) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Corporation, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, registered holders of the Common Stock of the Corporation).

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Corporation determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire

until the Close of Business on the tenth Business Day following the date of such determination by the Board of Directors.

Section 32. Governing Law. This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

SIGNATURE

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

Attest:

By

Name:
Title:

PRINCIPAL FINANCIAL GROUP, INC.

By

Name:
Title:

Attest:

By

Name:
Title:

[RIGHTS AGENT]

By

Name:
Title:

EXHIBIT A

PRINCIPAL FINANCIAL GROUP, INC.

Certificate of Designation,
Preferences and Rights
Pursuant to Section 151
of the General Corporation Law
of the State of Delaware

Certificate of Designation,
Preferences and Rights
of
Series A Junior Participating Preferred Stock

I, [officer], being the [title] of Principal Financial Group, Inc., a corporation organized and existing under the General Corporation Law of Delaware (the "CORPORATION"), do hereby certify:

FIRST: That, pursuant to authority expressly vested in the Board of Directors of the Corporation by the provisions of its Certificate of Incorporation, the Board of Directors on _____, _____ duly adopted the following resolution:

RESOLVED that a Series A Junior Participating Preferred Stock, par value $1.00 per share, be, and it hereby is, created by this Board of Directors, pursuant to authority expressly vested in it by the provisions of the Certificate of Incorporation of the Corporation, and that the designation, relative powers, preferences and rights, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Number of Shares. _____ shares of the Preferred Stock of the Corporation shall constitute a series of Preferred Stock designated as Series A Junior Participating Preferred Stock (hereinafter referred to as the "SERIES A PREFERRED STOCK"). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value $0.01 of the Corporation (the "COMMON STOCK") and of any other junior stock which may be outstanding, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, annual dividends payable in cash on the fifteenth day of December in each year (each such date being referred to herein as a "DIVIDEND PAYMENT DATE"), commencing on the first Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $10.00 per share, or (b) subject to the provision for adjustment hereinafter set forth, 1000 times the aggregate per share amount of all cash dividends, and 1000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Dividend Payment Date, or, with respect to the first Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Dividend Payment Date and the next subsequent Dividend Payment Date, a dividend of $10.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares or Series A Preferred Stock from the Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Dividend Payment Date, in which case dividends on

such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Dividend Payment Date. Accrued but unpaid dividends shall accumulate but shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provisions for adjustment as hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 1000 votes (and each one one-thousandth of a share of Series A Preferred Stock shall entitle the holder thereof to one vote) on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation, in any other certificate of designation creating a series of preferred stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as provided herein, in Section 10 or by applicable law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be

required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for authorizing or taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on any shares or stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock except dividends paid ratably on the Series A Preferred Stock, and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(v) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the

Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever, shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock, without designation as to series, and may be reissued as part of a new series of preferred stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein, in the Restated Certificate of Incorporation, in any other certificate of designation creating a series of preferred stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding-Up. Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, no distribution shall be made (A) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding-up) to the Series A Preferred Stock unless prior thereto, the holders of shares of Series A Preferred Stock shall have received the higher of (i) $1000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1000 times the aggregate amount to be distributed per share to holders of Common Stock; nor shall any distribution be made (B) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding-up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding-up. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the provision in clause (A) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, or otherwise changed, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount

per share (subject to the provision for adjustment hereinafter set forth) equal to 1000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 9. Rank. Unless otherwise provided in the Restated Certificate of Incorporation of the Corporation or a Certificate of Designation relating to a subsequent series of preferred stock of the Corporation, the Series A Preferred Stock shall rank junior to all other series of the Corporation's preferred stock as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding-up, and senior to the Common Stock of this Corporation.

Section 10. Amendment. The Restated Certificate of Incorporation of the Corporation, as amended, shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single series.

Section 11. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share (in one one-thousandths of a share and integral multiples thereof) which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

IN WITNESS WHEREOF, this Certificate of Designation is executed on behalf of the Corporation by its [title] and attested by its Secretary this th day of , .

Name: [officer]
Title: [title]

ATTEST:

- ---
Name:
Title: Secretary

EXHIBIT B

[Form of Right Certificate]

Certificate No. R- _____ Rights

NOT EXERCISABLE AFTER _____ ____, 2011 OR EARLIER IF THE BOARD OF DIRECTORS ORDERS THE REDEMPTION OR EXCHANGE OF THE RIGHTS. THE RIGHTS ARE SUBJECT TO REDEMPTION AT $.001 PER RIGHT AND TO EXCHANGE ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. THE RIGHTS SHALL NOT BE EXERCISABLE, AND SHALL BE VOID SO LONG AS HELD, BY A HOLDER IN ANY JURISDICTION WHERE THE REQUISITE QUALIFICATION TO THE ISSUANCE TO SUCH HOLDER, OR THE EXERCISE BY SUCH HOLDER, OF THE RIGHTS IN SUCH JURISDICTION SHALL NOT HAVE BEEN OBTAINED OR BE OBTAINABLE.

Rights Certificate

PRINCIPAL FINANCIAL GROUP, INC.

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of _____ ____, 2001, as the same may be amended from time to time (the "RIGHTS AGREEMENT"), between Principal Financial Group, Inc., a Delaware corporation (the "CORPORATION"), and _____, a _____ corporation (the "RIGHTS AGENT"), to purchase from the Corporation at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M. ([____] time) on_____ ____, 2011, at the principal office of the Rights Agent, or its successors as Rights Agent, one one-thousandth of a fully paid nonassessable share of Series A Junior Participating Preferred Stock, par value $1.00 per share (the "PREFERRED STOCK"), of the Corporation, at a purchase price of $_____ per one one-thousandth of a share of Preferred Stock (the "PURCHASE PRICE"), upon presentation and surrender of this Right Certificate with the Form of Election to Purchase and the Certificate contained therein duly executed. The number of Rights evidenced by this Right Certificate (and the number of one one-thousands of a share of Preferred Stock which may be purchased upon exercise thereof) set forth above, and the Purchase Price per one one-thousandth of a share of Preferred

Stock set forth above, are the number and Purchase Price as of , , based on the shares of Preferred Stock as constituted at such date.

From and after the first occurrence of a Section 11(a)(ii) Event (as defined in the Rights Agreement), if the Rights evidenced by this Right Certificate are beneficially owned by (i) an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), (ii) a transferee of any such Acquiring Person (or of any Associate or Affiliate thereof) who becomes a transferee after such Acquiring Person (or any Associate or Affiliate thereof) becomes such or (iii) under certain circumstances specified in the Rights Agreement, a transferee of such Acquiring Person (or of any Associate or Affiliate thereof) who becomes a transferee prior to or concurrently with such Acquiring Person becoming such, such Rights shall become null and void and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) Event.

The Rights evidenced by this Right Certificate shall not be exercisable, and shall be void so long as held, by a holder in any jurisdiction where the requisite qualification to the issuance to such holder, or the exercise by such holder, of the Rights in such jurisdiction shall not have been obtained or be obtainable.

As provided in the Rights Agreement, the Purchase Price and the number of one one-thousandths of a share of Preferred Stock or the number and kind of other securities which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events, including Section 11(a)(ii) Events and Section 13 Events (as defined in the Rights Agreement).

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, as it may be amended from time to time, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Corporation and the holders of the Right Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the principal executive offices of the Corporation and the above-mentioned office of the Rights Agent and are also available upon written request to the Rights Agent.

This Right Certificate, with or without other Right Certificates, upon surrender at the principal office of the Rights Agent, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of one one-thousandths of a share of Preferred Stock as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have

entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Right Certificate may be redeemed by the Corporation at a redemption price of $.001 per Right at any time prior to the earlier of (i) the Stock Acquisition Time (as defined in the Rights Agreement) and (ii) the close of business on the Expiration Date (as defined in the Rights Agreement). Subject to the provisions of the Rights Agreement, the rights evidenced by this Right Certificate may be exchanged in whole or part for shares of Common Stock or fractional shares of Preferred Stock (or any other substantially similar series of preferred stock of the Corporation).

No fractional shares of Preferred Stock will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock, which may, at the election of the Corporation, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

Other than those provisions relating to the redemption price of the Rights and the Expiration Date, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Corporation in any respect whatsoever up until the Stock Acquisition Time and thereafter in certain respects which do not adversely affect the interests of holders of Right Certificates (other than an Acquiring Person or the Affiliates or Associates thereof).

No holder of this Right Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of shares of Preferred Stock or of any other securities of the Corporation which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Corporation or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Corporation and its corporate seal. Dated as of _____ _____, _____.

ATTEST: PRINCIPAL FINANCIAL GROUP, INC.

By

Secretary Title:

Countersigned:
[RIGHTS AGENT]

By

Authorized Signature

[Form of Reverse Side of Right Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such

holder desires to transfer the Right Certificate.)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfers unto

- ----------

- ----------

(Please print name and address of transferee)

this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Right Certificate on the books of the within named Corporation, with full power of substitution.

Dated:_____, ____

Signature

Signatures Guaranteed:

The undersigned hereby certifies that (1) the Rights evidenced by this Right Certificate are not beneficially owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement); and (2) after due inquiry and to the best

knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate thereof.

Signature

NOTICE

The signature to the foregoing Assignment must correspond to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to
exercise the Right Certificate.)

To Principal Financial Group, Inc.:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Right Certificate to purchase the shares of Preferred Stock issuable upon the exercise of such Rights (or such other securities of the Corporation or of any other Person which may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of:

Please insert social security
or other identifying number

- ---

- ---
(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Right Certificate, a new Right Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security or other identifying number

- ---

- ---
(Please print name and address)

Dated:_____, ____

[Form of Election to Purchase -- continued]

Signature

(Signature must conform in all respects to name of holder as specified on the face of this Right Certificate.)

Signature Guaranteed:

- ---

(To be completed if applicable)

The undersigned hereby certifies that (1) the Rights evidenced by this Right Certificate are not beneficially owned by an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement); (2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Right Certificate from any Person who is, was or subsequently became an Acquiring Person of an Affiliate or Associate thereof.

Signature

- ---

NOTICE

In the event the certification set forth above in the Forms of Assignment and Election is not completed, the Corporation will deem the beneficial owner of the Rights evidenced by this Right Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and, in the case of an Assignment, will affix a legend to that effect on any Right Certificates issued in exchange for this Rights Certificate.

EXHIBIT C

UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID.

PRINCIPAL FINANCIAL GROUP, INC.

SUMMARY OF RIGHTS TO PURCHASE
PREFERRED STOCK

The Board of Directors of Principal Financial Group, Inc. (the "CORPORATION") has authorized the issuance of one Preferred Share Purchase Right (a "RIGHT") for each outstanding share of Common Stock, par value $0.01 per share, of the Corporation (the "COMMON STOCK"). The following is a summary of the terms of the Rights.

Each Right entitles the registered holder to purchase from the Corporation one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $1.00 per share, of the Corporation (the "PREFERRED STOCK") at a price of $_____ per one one-thousandth of a share of Preferred Stock, subject to adjustment (the "PURCHASE PRICE"). The description and terms of the Rights are set forth in a Rights Agreement, dated as of _____ ____, 2001(the Rights Agreement, as it may be amended from time to time, is hereinafter referred to as the "RIGHTS AGREEMENT") between the Corporation and _____, as Rights Agent (the "RIGHTS AGENT").

Initially, the Rights will be attached to all Common Stock book-entries or certificates representing shares then outstanding, and no separate book-entries or certificates representing the Rights ("RIGHT CERTIFICATES") will be distributed. The Rights will separate from the Common Stock and a "DISTRIBUTION DATE" will occur upon the earlier to occur of (i) ten days following the time (the "STOCK ACQUISITION TIME") of a public announcement or notice to the Corporation that a person or group of affiliated or associated persons (an "ACQUIRING PERSON") acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the outstanding Common Stock of the Corporation, and (ii) ten business days (or, if determined by the Board of Directors, a specified or unspecified later date) following the commencement or announcement of an intention to make a tender offer or exchange offer which, if successful, would cause the bidder to own 10% of more of the outstanding Common Stock.

The Rights Agreement provides that, until the Distribution Date, (i) the Rights will be transferred with and only with the Common Stock, (ii) new Common Stock certificates issued after _____ ____, 2001, upon transfer, new issuance or reissuance of the Common Stock, will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any of the Common Stock book-entries or certificates outstanding will also constitute the transfer of the Rights associated with the shares of Common Stock represented by such certificate or book-entry. As soon as practicable following the Distribution Date, separate Right Certificates will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights. Except in connection with issuance of Common Stock pursuant to employee stock plans, options and certain convertible securities, and except as otherwise determined by the Board of Directors, only shares of Common Stock issued prior to the Distribution Date will be issued with Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on _____ ____, 2011, unless earlier redeemed or exchanged by the Corporation as described below.

In the event that, after the Stock Acquisition Time, the Corporation is acquired in a merger or other business combination transaction (except certain transactions with a person who became an Acquiring Person as a result of a tender offer described in the next succeeding paragraph) or 50% or more of its assets, cash flow or earning power is sold, proper provision shall be made so that each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring corporation which at the time of such transaction would have a market value (as defined in the Rights Agreement) of two times the Purchase Price of the Right. In the event that, after the Stock Acquisition Time, the Corporation were the surviving corporation of a merger and its Common Stock were changed or exchanged, proper provision shall be made so that each holder of a Right will thereafter have the right to receive upon exercise that number of shares of common stock of the Corporation having a market value of two times the exercise price of the Right.

In the event that a person or group becomes an Acquiring Person, each holder of a Right (other than the Acquiring Person) will thereafter have the right to receive upon exercise that number of shares of Common Stock (or, in certain circumstances, cash, a reduction in the Purchase Price, Preferred Stock, other equity securities of the Corporation, debt securities of the Corporation, other property or a combination thereof) having a market value (as defined in the Rights Agreement) of two times the Purchase Price of the Right. Notwithstanding any of the foregoing, following the occurrence of any of the events set forth in this paragraph, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person (or an affiliate, associate or transferee thereof) will be null and void. A

person will not be an Acquiring Person if the Board of Directors of the Corporation determines that such person or group became an Acquiring Person inadvertently and such person or group promptly divests itself of a sufficient number of shares of Common Stock so that such person or group is no longer an Acquiring Person.

The Purchase Price payable, and the number of shares of Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) upon the grant to holders of Preferred Stock of certain rights or warrants to subscribe for Preferred Stock or convertible securities at less than the current market price of Preferred Stock or (iii) upon the distribution to holders of Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Preferred Stock) or of subscription rights or warrants (other than those referred to above). The number of Rights and number of shares of Preferred Stock issuable upon the exercise of each Right are also subject to adjustment in the event of a stock split, combination or stock dividend on the Common Stock.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Preferred Stock will be issued (other than fractions which are integral multiples of one one-thousandth of a share of Preferred Stock which may, upon the election of the Corporation, be evidenced by depositary receipts) and, in lieu thereof, an adjustment in cash will be made based on the market price of the Preferred Stock on the last trading date prior to the date of exercise.

At any time prior to the earlier of the Stock Acquisition Time and the Expiration Date (as defined in the Rights Agreement), the Board of Directors may redeem the Rights in whole, but not in part, at a price of $.001 per Right (the "REDEMPTION PRICE"). Immediately upon the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

At any time after a person becomes an Acquiring Person and prior to the acquisition by such Person of 50% or more of the outstanding shares of Common Stock, the Board of Directors of the Corporation may exchange the Rights (other than Rights beneficially owned by such Person which have become void), in whole or part, at an exchange ratio of one share of Common Stock per Right (subject to adjustment). The Corporation, at its option, may substitute one-thousandth (subject to adjustment) of a share of Preferred Stock (or other series of substantially similar preferred stock of the Corporation) for each share of Common Stock to be exchanged.

Each share of Preferred Stock purchasable upon exercise of the Rights will have a minimum preferential dividend of $10 per year, but will be entitled to receive, in the aggregate, a dividend of 1000 times the dividend declared on the shares of Common Stock. In the event of liquidation, the holders of the shares of Preferred Stock will be entitled to receive a minimum liquidation payment of $1000 per share, but will be entitled to receive an aggregate liquidation payment equal to 1000 times the payment made per share of Common Stock. Each share of Preferred Stock will have one thousand votes, voting together with the shares of Common Stock. In the event of any merger, consolidation or other transaction in which shares of Common Stock are exchanged, each share of Preferred Stock will be entitled to receive 1000 times the amount and type of consideration received per share of Common Stock. The rights of the shares of Preferred Stock as to dividends and liquidation, and in the event of mergers and consolidations, are protected by anti-dilution provisions.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Corporation, other than rights resulting from such holder's ownership of shares of Common Stock, including, without limitation, the right to vote or to receive dividends. While the distribution of the Rights will not be taxable to stockholders or to the Corporation, stockholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Common Stock (or other consideration) of the Corporation or for common stock of the acquiring corporation as set forth above.

Other than those provisions relating to the Redemption Price and expiration date of the Rights, any of the provisions of the Rights Agreement may be amended by the Board of Directors prior to the Stock Acquisition Time. After such time, the provisions of the Rights Agreement may be amended by the Board of Directors in order to cure any ambiguity, to correct or supplement defective or inconsistent provisions, to shorten or lengthen any time period under the Rights Agreement, to make changes which do not adversely affect the interests of the holders of Rights (excluding the interests of any Acquiring Person) or to shorten or lengthen any time period under the Rights Agreement; provided, however, that no amendment to adjust the time period governing redemption shall be made at such time as the Rights are not redeemable.

The term "VOTING STOCK" means (i) the shares of Common Stock of the Corporation and (ii) any other shares of capital stock of the Corporation entitled to vote generally in the election of directors or entitled to vote together with the shares of Common Stock in respect of any merger, consolidation, sale of all or substantially all of the Corporation's assets, liquidation, dissolution or winding up.

A copy of the Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to the Corporation's Registration Statement on Form S-1 dated _____ ____, 2001. Copies of the Rights Agreement are available free of charge

from the Corporation. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, as it may be amended from time to time, which is hereby incorporated herein by reference.

==========

PRINCIPAL FINANCIAL GROUP, INC.

and

[RIGHTS AGENT]

RIGHTS AGREEMENT

Dated as of _____ ____, 2001

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TABLE OF CONTENTS

		Page
Section 1.	Certain Definitions	1
Section 2.	Appointment of Rights Agent	6
Section 3.	Issue of Right Certificates	7
Section 4.	Form of Right Certificates	8
Section 5.	Countersignature and Registration	9
Section 6.	Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates	9
Section 7.	Exercise of Rights; Purchase Price; Expiration Date of Rights	10
Section 8.	Cancellation and Destruction of Right Certificates	12
Section 9.	Reservation and Availability of Capital Stock	13
Section 10.	Preferred Stock Record Date	14
Section 11.	Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights	15
Section 12.	Certificate of Adjusted Purchase Price or Number of Shares	23
Section 13.	Consolidation, Merger or Sale or Transfer of Assets, Cash Flow or Earning Power	23
Section 14.	Fractional Rights and Fractional Shares	26
Section 15.	Rights of Action	27
Section 16.	Agreement of Right Holders	28
Section 17.	Right Certificate Holder Not Deemed a Stockholder	29
Section 18.	Concerning the Rights Agent	29
Section 19.	Merger or Consolidation or Change of Name of Rights Agent	29

Section 20. Duties of Rights Agent.....30
Section 21. Change of Rights Agent.....32
Section 22. Issuance of New Right Certificates.....33
Section 23. Redemption.....34
Section 24. Exchange.....34
Section 25. Notice of Certain Events.....36
Section 26. Notices.....37
Section 27. Supplements and Amendments.....37
Section 28. Successors.....38
Section 29. Determinations and Actions by the Board of Directors, etc.....38
Section 30. Benefits of this Agreement.....39
Section 31. Severability.....39
Section 32. Governing Law.....40
Section 33. Counterparts.....40
Section 34. Descriptive Headings.....40

Exhibit A - Form of Certificate of Designation
Exhibit B - Form of Right Certificate
Exhibit C - Summary of Rights to Purchase Preferred Stock

EXHIBIT 10.1

PRINCIPAL FINANCIAL GROUP, INC.
STOCK INCENTIVE PLAN

SECTION 1.
PURPOSE

The purpose of the "PRINCIPAL FINANCIAL GROUP, INC. STOCK INCENTIVE PLAN" (the "Plan") is to foster and promote the long-term financial success of the Company and its subsidiaries and materially increase shareholder value by (a) motivating superior performance by means of performance-related incentives, (b) encouraging and providing for the acquisition of an ownership interest in the Company by the Company's and its Subsidiaries' employees and agents, and (c) enabling the Company to attract and retain the services of outstanding employees upon whose judgment, interest, and special effort the successful conduct of its operations is largely dependent.

SECTION 2.
DEFINITIONS

(a) Definitions. Whenever used herein, the following terms shall have the respective meanings set forth below:

(1) "Act" means the Securities Exchange Act of 1934, as amended.

(2) "Agent" means each insurance agent (whether or not a statutory employee) and each other individual providing personal service to the Company or any Subsidiary who, in either case, is not an Employee.

(3) "Agents Savings Plan" means The Principal Select Savings Plan for Individual Field.

(4) "Approved Retirement" means termination of a Participant's employment or service (i) on or after the normal retirement date or any early retirement date established under any defined benefit pension plan maintained by the Company or a Subsidiary and in which the Participant participates or (ii) with the approval of the Committee (which may be given at or after grant), on or after attaining age 50 and completing such period of service as the Committee shall determine from time to time.

(5) "Award" means an Option, SAR, award of Restricted Stock or an award of Restricted Stock Units.

(6) "Beneficial Owner" means such term as defined in Rule 13d-3 under the Exchange Act.

(7) "Board" means the Board of Directors of the Company.

(8) "Cause" means (i) dishonesty, fraud or misrepresentation, (ii) the Participant's engaging in conduct that is injurious to the Company or any Subsidiary in any way, including, but not limited to, by way of damage to its reputation or standing in the industry, (iii) the Participant's having been convicted of, or entered a plea of nolo contendere to, a crime that constitutes a felony; (iv) the breach by the Participant of any written covenant or agreement with the Company or any Subsidiary not to disclose or misuse any information pertaining to, or misuse any property of, the Company or any Subsidiary or not to compete or interfere with the Company or any Subsidiary or (v) a violation by the Participant of any policy of the Company or any Subsidiary.

(9) "Change of Control" means the occurrence of any one or more of the following:

(i) any SEC Person becomes the Beneficial Owner of 25% or more of the Common Stock or of Voting Securities representing 25% or more of the combined voting power of all Voting Securities of the Company (such an SEC Person, a "25% Owner"); or

(ii) the Incumbent Directors cease for any reason to constitute at least a majority of the Board (other than in connection with a Merger of Equals); or

(iii) consummation of a merger, reorganization, consolidation, or similar transaction (any of the foregoing, a "Reorganization Transaction") other than a Reorganization Transaction (x) following which the Continuity of Ownership is more than 60% or (y) which is (and continues to qualify as) a Merger of Equals; or

(iv) approval by the stockholders of the Company of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of the Company or a plan of liquidation of the Company; or

(v) any other event or circumstance (or series of events or circumstances) that the Board shall determine to constitute a Change of Control.

Notwithstanding the foregoing, a Change of Control shall not occur merely as a result of (i) the conversion of Mutual from a mutual insurance holding company to a stock company or (ii) an underwritten initial public offering of the Common Stock, unless, immediately following such conversion or such initial public offering, any SEC Person is a 25% Owner.

(10) "Change of Control Price" means the highest price per share of Common Stock offered in conjunction with any transaction resulting in a Change of Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change of Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the Common Stock on any of the 30 trading days immediately preceding the date on which a Change of Control occurs.

(11) "Code" means the Internal Revenue Code of 1986, as amended.

(12) "Committee" means the Human Resources Committee of the Board or such other committee of the Board as the Board shall designate from time to time, which committee shall consist of two or more Non-Employee Directors (within the meaning of Rule 16b-3 as promulgated under the Exchange Act).

(13) "Common Stock" means the common stock of the Company, par value $0.01 per share.

(14) "Company" means Principal Financial Group, Inc., a Delaware corporation, and any successor thereto.

(15) "Company Stock Plan" means any stock option plan, stock incentive plan, stock purchase plan and share ownership plans related to the Common Stock that are customary for publicly traded companies, and shall include the Directors Stock Plan, the Long-Term Plan, the Plan, the Savings Plans and the Stock Purchase Plan.

(16) "Continuity of Ownership" of a stated percentage means that the SEC Persons who were the direct or indirect owners of the outstanding Common Stock and Voting Securities of the Company immediately before such Reorganization Transaction became, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of both the stated percentage of the then-outstanding common stock of the Surviving Corporation and Voting Securities representing the stated percentage of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Persons' ownership of the Common Stock and Voting Securities of the Company immediately before such Reorganization Transaction.

(17) "Directors Stock Plan" means the Principal Financial Group, Inc. Directors Stock Plan.

(18) "Disability" means, with respect to any Participant, long-term disability as defined under any long-term disability plan maintained by the Company or a Subsidiary in which the Participant participates. In the event of any question as to whether a Participant has a Disability, the plan administrator of the relevant long-term disability plan shall determine whether a disability exists, in accordance with such plan.

(19) "Domestic Partner" means any person qualifying to be treated as a domestic partner of a Participant under the applicable policies, if any, of the Company or Subsidiary which employs the Participant.

(20) "Employee" means any employee (including each officer) of the Company or any Subsidiary.

(21) "Employees Savings Plan" means the Principal Select Savings Plan for Employees.

(22) "Excess Plan" means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

(23) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(24) "Executive Officer" means any officer of the Company or any Subsidiary who is subject to the reporting requirements under Section 16(b) of the Exchange Act.

(25) "Fair Market Value" means, on any date, the price of the last trade, regular way, in the Common Stock on such date on the New York Stock Exchange or, if at the relevant time, the Common Stock is not listed to trade on the New York Stock Exchange, on such other recognized quotation system on which the trading prices of the Common Stock are then quoted (the "applicable exchange"); provided, however, that the Fair Market Value of the Common Stock on the first date that the Common Stock is offered for sale to the public through an underwritten public offering shall be the price at which the Common Stock is sold in such offering. In the event that (i) there are no Common Stock transactions on the applicable exchange on any relevant date, Fair Market Value for such date shall mean the closing price on the immediately preceding date on which Common Stock transactions were so reported and (ii) the applicable exchange adopts a trading policy permitting trades after 5 P.M. Eastern Standard Time ("EST"), Fair Market Value shall mean the last trade, regular way, reported on or before 5 P.M. EST (or such earlier or later time as the Committee may establish from time to time).

(26) "Family Member" means, as to a Participant, any (i) child, stepchild, grandchild, parent, stepparent, grandparent, spouse, mother-in-law, father-in-law, son-in-law or daughter-in-law (including adoptive relationships), or Domestic Partner of such Participant, (ii) trusts for the exclusive benefit of one or more such persons and/or the Participant and (iii) other entity owned solely by one or more such persons and/or the Participant.

(27) "Imminent Control Change Period" means the period commencing on the date any one or more of the following events occurs (or the first of such events in a series of such events) and ending on the date on which a Change of Control or a Merger of Equals occurs:

(i) The Company enters into an agreement the consummation of which would constitute a Change of Control;

(ii) Any SEC Person attempts to become a 25% Owner, as evidenced by filing or other certification of notice of such intent with any state's governmental agency established to regulate the insurance industry, which, if consummated, would constitute a Change of Control;

(iii) Any SEC Person commences a "tender offer" (as such term is used in Section 14(d) of the Exchange Act) or exchange offer, which, if consummated, would result in a Change of Control; or

(iv) Any SEC Person files with the SEC a preliminary or definitive proxy solicitation or election contest to elect or remove one or more members of the Board, which, if consummated or effected, would result in a Change of Control;

provided, however, that an Imminent Control Change Period will lapse upon the occurrence of any of the following:

a) With respect to an event described in clause (i) of this definition, the date such agreement is terminated, cancelled or expires without a Change of Control or Merger of Equals occurring;

b) With respect to an event described in clause (ii) of this definition, the date such filing or other certification is withdrawn, expires or is denied or otherwise rejected by the relevant state regulators without a Change of Control or Merger of Equals occurring;

c) With respect to an event described in clause (iii) of this definition, the date such tender offer or exchange offer is withdrawn or terminates without a Change of Control or Merger of Equals occurring;

d) With respect to an event described in clause (iv) of this definition, (1) the date the validity of such proxy solicitation or election contest expires under relevant state corporate law, or (2) the date such proxy solicitation or election contest culminates in a stockholder vote, in either case without a Change of Control or Merger of Equals occurring; or

e) The date a majority of the Incumbent Directors makes a good faith determination that any event or condition described in clause (i), (ii), (iii) or (iv) of this definition is no longer likely to result in a Change of Control, provided that such determination may not be made prior to the six (6) month anniversary of the occurrence of such event.

Notwithstanding the foregoing, an Imminent Control Change Period shall not commence merely as a result of (A) planning, or filing or certifying an intent with any state's governmental agency established to regulate the insurance industry of a plan of reorganization of Mutual, or (B) the planned underwritten initial public offering of Common Stock, so long as such initial public offering is not expected to result in any SEC Person becoming a 25% Owner.

(28) "Incentive Stock Option" (ISO) means an option within the meaning of Section 422 of the Code.

(29) "Incumbent Directors" means, as of any date, the individuals then serving as members of the Board who were also members of the Board as of the date two years prior to the date of determination; provided that any member appointed or elected as a member of the Board after such prior date, but whose election, or nomination for election, was approved by a vote or written consent of at least a majority of the directors then comprising the Incumbent Directors shall also be considered an Incumbent Director unless such person's election, or nominated for election, to the Board was as a result of, or in connection with, a proxy contest or a Reorganization Transaction.

(30) "Initial Public Offering" means the first underwritten offering of Common Stock to the public.

(31) "Long-Term Plan" means the Principal Financial Group Long- Term Performance Plan.

(32) "Merger of Equals" means the occurrence of a Reorganization Transaction that satisfies all of the following:

(i) the consummation of such Reorganization Transaction results in Continuity of Ownership of at least 40%, but not more than 60%; and

(ii) an SEC Person does not become a 25% Owner as a result of such Reorganization Transaction; and

(iii) throughout the period beginning on the effective date of the event and ending on the second anniversary of such effective date, the Incumbent Directors continue to constitute not less than

a) a majority of the Board, if subclause (i) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 50%, but not more than 60%; or

b) one (1) member less than a majority of the Board, if subclause (i) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 40%, but less than 50%; and

(iv) the person who was the Chief Executive Officer of the Company immediately prior to the first to occur of (x) the day prior to the beginning of the Imminent Control Change Period or (y) the day prior to the effective date of the Reorganization Transaction shall serve as the Chief Executive Officer of the Surviving Corporation at all times during the period commencing on the effective date of the Reorganization Transaction and ending on the first anniversary thereof, provided that this condition shall not fail to be satisfied due to the death or Disability of the Chief Executive Officer;

provided, however, that a Reorganization Transaction shall cease to be considered a Merger of Equals (and shall instead be treated as a Change of Control) from and after the first date:

a) during the two year period following the date as of which such Reorganization Transaction occurs that any of the conditions of any of clause (b), (c) or (d) of this definition shall not be satisfied; or

b) prior to the first anniversary of the effective date of the Reorganization Transaction, the Company shall make a filing with the Securities and Exchange Commission, issue a press release, or make a public announcement to the effect that the Surviving Corporation is seeking or intends to seek a replacement for its Chief Executive Officer (other than due to the death or Disability of such person), whether such replacement is to become effective before or after such first anniversary.

(33) "Mutual" means Principal Mutual Holding Company, an Iowa mutual insurance holding company and any successor thereto.

(34) "Nonstatutory Stock Option" (NSO) means an option which is not an Incentive Stock Option within the meaning of Section 422 of the Code.

(35) "Option" means the right to purchase Common Stock at a stated price for a specified period of time. For purposes of the Plan, an Option may be either (i) an "Incentive Stock Option" (ISO) within the meaning of Section 422 of the Code or (ii) an option which is not an Incentive Stock Option (a "Nonstatutory Stock Option" (NSO)).

(36) "Participant" means any Employee or Agent designated by the affirmative action of the Committee (or its delegate) to participate in the Plan.

(37) "Period of Restriction" means the period specified by the Committee or established pursuant to the Plan during which a Restricted Stock award is subject to forfeiture.

(38) "Plan of Conversion" means the Plan of Conversion of Mutual.

(39) "Reorganization Transaction" shall have the meaning ascribed thereto in the definition of Change of Control.

(40) "Restricted Stock" means an award of Stock made pursuant to Section 6 that is forfeitable by the Participant until the completion of a specified period of future service, the achievement of pre-established performance objectives or until otherwise determined by the Committee or in accordance with the terms of the Plan.

(41) "Restricted Stock Unit" means a contractual right awarded pursuant to Section 6 that entitled the holder to receive shares of Common Stock (or the value thereof in cash) upon the completion of a specified period of future service or the achievement of pre-established performance objectives or at such other time or times determined by the Committee or in accordance with the terms of the Plan.

(42) "SAR" means a stock appreciation right granted under Section 7 of the Plan in respect of one or more shares of Common Stock that entitles the holder thereof to receive, in cash or Common Stock, at the discretion of the Committee (which discretion may be exercised at or after grant, including after exercise of the SAR), an amount per share of Common Stock equal to the excess, if any, of the Fair Market Value on the date the SAR is exercised over the Fair Market Value on the date the SAR is granted.

(43) "Savings Plans" means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

(44) "SEC Person" means any person (as such term is defined in Section 3(a)(9) of the Exchange Act) or group (as such term is used in Rule 13d-5 under the Exchange Act), other than an affiliate or any employee benefit plan (or any related trust) of the Company or any of its affiliates.

(45) "Stock Purchase Plan" means the Principal Financial Group, Inc. Employee Stock Purchase Plan.

(46) "Subsidiary" means (i) any corporation in which the Company owns, directly or indirectly, at least 50% of the total combined voting power of all classes of stock of such corporation, (ii) any partnership or limited liability company in which the Company owns, directly or indirectly, at least 50% of the capital interests or profits interest of such partnership or limited liability company and (iii) any other business entity in which the Company owns at least 50% of the equity interests thereof, provided that, in any such case, the Company is in effective control of such corporation, partnership, limited liability company or other entity.

(47) "Surviving Corporation" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate voting power of such resulting corporation are directly or indirectly owned by another corporation, such other corporation.

(48) "25% Owner" shall have the meaning ascribed thereto in the definition of Change of Control.

(49) "Voting Securities" means, with respect to any corporation, securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

SECTION 3.
POWERS OF THE COMMITTEE

(a) Power to Grant. The Committee shall determine those Employees and/or Agents to whom an Award shall be granted and the terms and conditions of any and all such Awards. The Committee may establish different terms and conditions for different Awards and different Participants and for the same Participant for each Award such Participant may receive, whether or not granted at different times.

(b) Administration.

(1) Rules, Interpretations and Determinations. The Plan shall be administered by the Committee. The Committee shall have full authority to interpret and administer the Plan, to establish, amend, and rescind rules and regulations relating to the Plan, to provide for conditions deemed necessary or advisable to protect the interests of the Company, to construe the respective Award agreements and to make all other determinations necessary or advisable for the administration and interpretation of the Plan in order to carry out its

provisions and purposes. Determinations, interpretations, or other actions made or taken by the Committee shall be final, binding, and conclusive for all purposes and upon all persons.

(2) Agents and Expenses. The Committee may appoint agents (who may be officers or employees of the Company) to assist in the administration of the Plan and may grant authority to such persons to execute agreements or other documents on its behalf. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

(3) Delegation of Authority. The Committee may delegate to the Company's Chief Executive Officer the power and authority to make and/or administer Awards under the Plan with respect to individuals who are below the position of Senior Vice President (or any analogous title), pursuant to such conditions and limitations as the Committee may establish; provided that only the Committee or the Board may select, and grant Awards to, Executive Officers or exercise any other discretionary authority under the Plan in respect of Awards granted to such Executive Officers.

(c) Certain Rules Relating to Grants and Actions.

(1) Maximum Individual Grants. During any three year period, no individual Participant may be granted Awards in respect of more than 10% of the total shares available under the Plan; provided that, to the extent that SARs are granted in tandem with an Option, so that only one may be exercised with the other terminating upon such exercise, the number of shares of Common Stock subject to such tandem Option and SAR award shall only be taken into account once (and not as to both awards) for purposes of this limit.

(2) Broad Based Grants. Notwithstanding anything else to the contrary contained herein, the Committee may authorize the grant of Nonstatutory Stock Options to a broad based group of Employees and/or Agents, including all Employees and/or Agents or all Employees and/or Agents in one or more classes (any such broad based grant of Nonstatutory Stock Options, a "Broad Based Grant"). Unless the Committee shall otherwise determine, any such Broad Based Grant shall be made on terms and conditions that are substantially the same for all Employees and/or Agents (or all Employees or Agents in a specified classification of Employees or Agents) receiving such grant.

(3) Limitations in Plan of Conversion. Notwithstanding anything else contained in the Plan to the contrary, no action shall be taken, and no Award or distribution shall be made, under the Plan which contains any term or condition that would violate any provision of the Plan of Conversion.

SECTION 4.
COMMON STOCK SUBJECT TO PLAN

(a) Number. Subject to Section 4(c) below, during the five year period immediately following the effective date of the Plan of Conversion (or such longer period as the shares initially authorized for issuance hereunder remain available for grants hereunder), unless the shareholders of the Company approve an increase in such number by a shareholder vote, the maximum number of shares of Common Stock that may be made issuable or distributable under all Company Stock Plans (including, without limitation, the Plan) other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan is 6% of the number of shares outstanding immediately following the effective date of the Plan of Conversion. Without limiting the generality of the foregoing, the maximum number of shares as to which Incentive Stock Options may be granted shall not exceed 10 million shares. When a SAR is granted in tandem with an Option, so that only one may be exercised with the other terminating upon such exercise, the number of shares of Common Stock subject to the tandem Option and SAR award shall only be taken into account once (and not as to both awards) for purposes of this limit (and for purposes of the provisions of Section 4(b) below). The shares to be delivered under the Plan may consist, in whole or in part, of treasury Common Stock or authorized but unissued Common Stock, not reserved for any other purpose.

(b) Canceled or Terminated Awards. Any shares of Common Stock subject to an Award which for any reason expires without having been exercised, is canceled or terminated or otherwise is settled without the issuance of any Common Stock (including, but not limited to, shares tendered to exercise outstanding Options or shares tendered or withheld for taxes) shall again be available for grant under the Plan. Notwithstanding the foregoing, in the event that any SARs are paid out in shares of Common Stock, the number of shares of Common Stock as to which such SARs have been exercised (and not just the number of shares actually issued) shall be deemed issued for purposes of determining the limit under Section 4(a) above and shall not again be available for issuance pursuant to this Section 4(b).

(c) Adjustment Due to Change in Capitalization. In the event of any Common Stock dividend or Common Stock split, recapitalization (including, but not limited, to the payment of an extraordinary dividend to the stockholders of the Company), merger, consolidation, combination, spin-off, distribution of assets to stockholders (other than ordinary cash dividends), exchange of shares, or other similar corporate change, the aggregate number of shares of Common Stock available for grant under Section 4(a) or subject to outstanding Awards and the respective exercise prices or base prices, if any, applicable to outstanding Awards may be appropriately adjusted by the Committee, in its discretion, and the Committee's determination shall be conclusive.

SECTION 5.
STOCK OPTIONS

(a) Grant of Options. Subject to the provisions of Section 3(c) and Section 4 above, Options may be granted to Participants at such time or times as shall be

determined by the Committee. Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Nonstatutory Stock Options. Except as otherwise provided herein, the Committee shall have complete discretion in determining the number of Options, if any, to be granted to a Participant, except that Incentive Stock Options may only be granted to Employees. Each Option grant shall be evidenced by an Option agreement that shall specify the type of Option granted, the exercise price, the duration of the Option, the number of shares of Common Stock to which the Option pertains, and such other terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan.

(b) Exercise Price. Nonstatutory Stock Options and Incentive Stock Options granted pursuant to the Plan shall have an exercise price no less than the Fair Market Value of a share of Common Stock on the date on which the Option is granted, except that the exercise price of any Option granted to take effect at the time of an underwritten public offering of the Common Stock shall be the price at which such shares are offered for sale thereunder.

(c) Exercise of Options. Unless the Committee shall impose a different schedule requiring a longer or shorter period of service to exercise in full any Option granted hereunder and subject to Section 3(c)(3) hereof, one-third of each Nonstatutory Stock Option or Incentive Stock Option granted pursuant to the Plan shall become exercisable on each of the first three (3) anniversaries of the date such Option is granted; provided, however, that each Nonstatutory Stock Option granted pursuant to the Plan in a Broad Based Grant shall become exercisable on the third (3(rd)) anniversary of the date such Option is granted and not before such time; and provided further that the Committee may establish performance-based criteria for exercisability that can accelerate the exercisability of all or any portion of any Option. Subject to the provisions of this Section 5, once any portion of any Option has become exercisable it shall remain exercisable for its full term. The Committee shall determine the term of each Nonstatutory Stock Option or Incentive Stock Option granted, but, except as expressly provided below, in no event shall any such Option be exercisable for more than ten (10) years after the date on which it is granted.

(d) Payment. The Committee shall establish procedures governing the exercise of Options. No shares shall be delivered pursuant to any exercise of an Option unless arrangements satisfactory to the Committee have been made to assure full payment of the exercise price therefor. Without limiting the generality of the foregoing, payment of the exercise price may be made (i) in cash or its equivalent, (ii) by exchanging shares of Common Stock (which are not the subject of any pledge or other security interest) which have been owned by the person exercising the Option for at least six (6) months at the time of exercise, (iii) by any combination of the foregoing; provided that the combined value of all cash and cash equivalents paid and the Fair Market Value of any such Common Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such exercise price or (iv) through an arrangement with a broker approved by the Company whereby payment of the exercise price is accomplished with the proceeds of the sale of Common Stock.

(e) Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, no Option that is intended to be an Incentive Stock Option may be granted after the tenth (10th) anniversary of the effective date of the Plan and no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of any Participant affected thereby, to disqualify any Incentive Stock Option under such Section 422.

(f) Termination of Employment or Service.

(1) Due to Death. In the event a Participant's employment or service terminates by reason of death, any Options granted to such Participant shall become immediately exercisable in full and may be exercised by the Participant's designated beneficiary or, if none is named, by the person determined in accordance with Section 10(b) below, at any time prior to the earlier to occur of (i) the expiration of the term of the Options or (ii) the third (3rd) anniversary (or such earlier date as the Committee shall determine at the time of grant) of the Participant's death.

(2) Due to Disability. In the event a Participant's employment or service is terminated by reason of Disability, any Options granted to such Participant shall become immediately exercisable in full and may be exercised by the Participant (or, in the event of the Participant's death after termination of employment or service when the Option is exercisable pursuant to its terms, by the Participant's designated beneficiary or, if none is named, by the person determined in accordance with Section 10(b) below), at any time prior to the earlier to occur of (i) the expiration of the term of the Options or (ii) the third (3rd) anniversary (or such earlier date as the Committee shall determine at the time of grant) of the Participant's termination of employment or service.

(3) Approved Retirement. In the event a Participant's employment or service terminates by reason of Approved Retirement, any Options granted to such Participant shall become immediately exercisable in full and may be exercised by the Participant (or, in the event of the Participant's death after termination of employment or service when the Option is exercisable pursuant to its terms, by the Participant's designated beneficiary or, if none is named, by the person determined in accordance with Section 10(b) below), at any time prior to the expiration date of the term of the Options or within three (3) years (or such shorter period as the Committee shall determine at the time of grant) following the Participant's Approved Retirement, whichever period is shorter.

(4) Termination of Employment For Cause or Resignation. In the event a Participant's employment or service is terminated by the Company or any Subsidiary for Cause or by the Participant other than due to the Participant's death, Disability or Approved Retirement, any Options granted to such Participant that have not yet been exercised shall expire at the time of such termination and shall not be exercisable thereafter.

(5) Termination of Employment for Any Other Reason. Unless otherwise determined by the Committee at or following the time of grant, in the event the employment or service of the Participant shall terminate for any reason other than one described in Section 5(f)(1), (2), (3), or (4) above, any Options granted to such Participant which are exercisable at the date of the Participant's termination of employment or service may be exercised by the Participant (or, in the event of the Participant's death after termination of employment or service when the Option is exercisable pursuant to its terms, by the Participant's designated beneficiary, or, if none is named, by the person determined in accordance with Section 10(b)), at any time prior to the expiration of the term of the Options or the ninetieth (90th) day following the Participant's termination of employment or service, whichever period is shorter, and any Options that are not exercisable at the time of termination of employment or service shall expire at the time of such termination and shall not be exercisable thereafter.

(g) Restrictive Covenants and Other Conditions. Without limiting the generality of the foregoing, the Committee may condition the grant of any Option under the Plan upon the Employee or Agent to whom such Option would be granted agreeing in writing to certain conditions in addition to the provisions regarding exercisability of the Option (such as restrictions on the ability to transfer the underlying shares of Common Stock) or covenants in favor of the Company and/or one or more Subsidiaries (including, without limitation, covenants not to compete, not to solicit employees and customers and not to disclose confidential information, that may have effect following the termination of the Employee's employment or the Agent's service with the Company and its Subsidiaries and after the Option has been exercised, including, without limitation, the requirement that the Employee or Agent disgorge any profit, gain or other benefit received in respect of the exercise of the Option prior to any breach of any such covenant by the Employee or Agent). Notwithstanding the foregoing, no grant of any Options in a Broad Based Grant shall contain any such restrictions or covenants.

SECTION 6.
RESTRICTED STOCK

(a) Grant of Restricted Stock. The Committee may grant Restricted Stock or Restricted Stock Units to Participants at such times and in such amounts, and subject to such other terms and conditions not inconsistent with the Plan (including, without limitation, Section 3(c)(3)) as it shall determine. The Committee shall require that the stock certificates evidencing any Restricted Stock be held in the custody of the Secretary of the Company until the Period of Restriction lapses, and that, as a condition of any Restricted Stock award, the Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such award. Each grant of Restricted Stock or Restricted Stock Units shall be evidenced by a written agreement setting forth the terms of such Award.

(b) Restrictions on Transferability. Except as provided in Section 10(a), no Restricted Stock may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the lapse of the Period of Restriction. Unless otherwise determined by

the Committee, the Period of Restriction shall last for four years in total, but shall lapse as to one quarter of the related shares of Restricted Stock on each of the first four anniversaries of the date of grant.

(c) Rights as a Shareholder. Unless otherwise determined by the Committee at the time of grant and subject to Section 6(d), Participants holding shares of Restricted Stock may exercise full voting rights and other rights as a shareholder with respect to those shares during the Period of Restriction.

(d) Dividends and Other Distributions. Unless otherwise determined by the Committee at the time of grant, Participants holding outstanding shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to those shares, provided that if any such dividends or distributions are paid in shares of Common Stock, such shares shall be subject to the same forfeiture restrictions and restrictions on transferability as apply to the Restricted Stock with respect to which they were paid. Notwithstanding the foregoing, the Committee may specify at the date of grant that any cash dividends on shares of Restricted Stock not be paid currently, but rather be credited to an account established for the Participant and invested in shares of Common Stock on the distribution date of such dividend. Any additional shares credited in respect of dividends shall become vested and nonforfeitable, if at all, on the same terms and conditions as are applicable in respect of the Restricted Stock with respect to which such dividends were payable.

(e) Termination of Employment Due to Approved Retirement or Death. Unless otherwise determined by the Committee at the time of grant or otherwise required pursuant to Section 3(c)(3), in the event a Participant's employment or service terminates by reason of Approved Retirement, Disability or death, a pro rata portion of any shares related to Restricted Stock held by such Participant shall become non-forfeitable, based upon that portion of the Period of Restriction which expired prior to the Participant's Approved Retirement or death and, where vesting of such an award is otherwise contingent on the achievement of performance objectives, the extent to which such performance objectives are achieved.

(f) Termination of Employment for Any Other Reason. Unless otherwise determined by the Committee at or after the time of grant, in the event the employment or service of the Participant shall terminate for any reason other than one described in Section 6(e), any Restricted Stock awarded to such Participant as to which the Period of Restriction has not lapsed shall be forfeited.

(g) Restricted Stock Units. The Committee may elect to grant any Participant a contractual right to receive shares of Common Stock (or, if so elected by the Committee at the time of grant, the cash value of shares of Common Stock) in the future, after the satisfaction of specified vesting conditions. Any such contractual right shall be intended to be the economic equivalent of an award of Restricted Stock. Any such award of contractual rights shall be in substantially the same terms as an award of Restricted Stock, except that a Participant receiving such award shall not have any rights as a shareholder prior to the actual issuance of such Common Stock (although the Committee

may authorize, in the applicable award agreement, the payment of dividend equivalents on such rights equal to the dividends that would have been payable (or accumulated, pursuant to Section 6(d)) had the corresponding equity rights been actual shares of Restricted Stock).

SECTION 7.
STOCK APPRECIATION RIGHTS

(a) Grant of SARs. SARs may be granted to any Participants, all Participants or any class of Participants at such time or times as shall be determined by the Committee. SARs may be granted in tandem with an Option, or may granted on a freestanding basis, not related to any Option. A grant of a SAR shall be evidenced in writing, whether as part of the agreement governing the terms of the Option, if any, to which such SARs relate or pursuant to a separate written agreement with respect to freestanding SARs, in each case containing such provisions not inconsistent with the Plan as the Committee shall approve.

(b) Terms and Conditions of SARs. Unless the Committee shall otherwise determine, the terms and conditions (including, without limitation, the exercise period of the SAR, the vesting schedule applicable thereto and the impact of any termination of service on the Participant's rights with respect to the SAR) applicable with respect to (i) SARs granted in tandem with an Option shall be substantially identical (to the extent possible taking into account the differences related to the character of the SAR) to the terms and conditions applicable to the tandem Options and (ii) freestanding SARs shall be substantially identical (to the extent possible taking into account the differences related to the character of the SAR) to the terms and conditions that would have been applicable under Section 5 above were the grant of the SARs a grant of an Option.

(c) Exercise of Tandem SARs. SARs which are granted in tandem with an Option may only be exercised upon the surrender of the right to exercise such Option for an equivalent number of shares and may be exercised only with respect to the shares of Common Stock for which the related Option is then exercisable.

(d) Payment of SAR Amount. Upon exercise of a SAR, the holder shall be entitled to receive payment, in cash, in shares of Common Stock or in a combination thereof, as determined by the Committee, of an amount determined by multiplying:

(1) the excess, if any, of the Fair Market Value of a share of Common Stock at the date of exercise over the Fair Market Value of a share of Common Stock on the date of grant, by

(2) the number of shares of Common Stock with respect to which the SARs are then being exercised.

SECTION 8.
CHANGE OF CONTROL

(a) Accelerated Vesting and Payment. Subject to Section 3(c)(3) herein and the provisions of Section 8(b) below, in the event of a Change of Control each Option and SAR then outstanding shall be fully exercisable regardless of the exercise schedule otherwise applicable to such Option and/or SAR , the Period of Restriction shall lapse as to each share of Restricted Stock then outstanding, each outstanding Restricted Stock

Unit shall become fully vested and payable and, in connection with such a Change of Control, the Committee may, in its discretion, provide that each Option and/or SAR shall, upon the occurrence of such Change of Control, be canceled in exchange for a payment per share (the "Settlement Payment") in an amount equal to the excess, if any, of the Change of Control Price over the exercise price for such Option or the base price of such SAR. Such Settlement Payment shall be in the form of cash, unless the transaction which constitutes the Change of Control is intended to qualify for treatment as a "Pooling of Interests" under APB No. 16 (or any successor thereto), in which case such Settlement Payment shall be in registered stock of the same class as is otherwise provided to the shareholders of the Company.

(b) Alternative Awards. Notwithstanding Section 8(a), no cancellation, acceleration of exercisability, vesting, cash settlement or other payment shall occur with respect to any Award if the Committee reasonably determines in good faith prior to the occurrence of a Change of Control that such Award shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted award hereinafter called an "Alternative Award"), by a Participant's employer (or the parent or an affiliate of such employer) immediately following the Change of Control; provided that any such Alternative Award must:

(1) be based on stock which is traded on an established securities market;

(2) provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;

(3) have substantially equivalent economic value to such Award (determined at the time of the Change in Control); and

(4) have terms and conditions which provide that in the event that the Participant's employment or service is involuntarily terminated for any reason (including, but not limited to a termination due to death, Disability or for Cause) or Constructively Terminated (as defined below), all of such Participant's Option and/or SARs shall be deemed immediately and fully exercisable, the Period of Restriction shall lapse as to each of the Participant's outstanding Restricted Stock awards, each of the Participant's outstanding Restricted Stock Unit awards shall

be payable in full and each such Alternative Award shall be settled for a payment per each share of stock subject to the Alternative Award in cash, in immediately transferable, publicly traded securities or in a combination thereof, in an amount equal to, in the case of an Option or SAR, the excess of the Fair Market Value of such stock on the date of the Participant's termination over the corresponding exercise or base price per share and, in the case of any Restricted Stock or Restricted Stock Unit award, the Fair Market Value of the number of shares of Common Stock subject or related thereto.

For this purpose, participant's employment or service shall be deemed to have been Constructively Terminated if, without the Participant's written consent, the Participant terminates employment or service within 120 days following either (x) a material reduction in the Participant's base salary or a Participant's incentive compensation opportunity, or (y) the relocation of the Participant's principal place of employment or service to a location more than 35 miles away from the Participant's prior principal place of employment or service.

(c) Accounting Issues. In applying the provisions of this Section 8 to a Pooling of Interests, the provisions related to business combinations under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion No. 25" (including any interpretations and modifications thereof) shall be taken into account.

SECTION 9.
AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN

The Board may, at any time and from time to time amend, modify, suspend, or terminate this Plan, in whole or in part, without notice to or the consent of any Participant, Employee or Agent; provided, however, that any amendment which would (i) increase the number of shares available for issuance under the Plan, (ii) lower the minimum exercise price at which an Option (or the base price at which a SAR) may be granted or (iii) extend the maximum term for Options or SARs granted hereunder shall be subject to the approval of the Company's shareholders. No amendment, modification, or termination of the Plan shall in any manner adversely affect any Award theretofore granted under the Plan, without the consent of the Participant.

SECTION 10.
MISCELLANEOUS PROVISIONS

(a) Transferability. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than in accordance with Section 10(b) below, by will or by the laws of descent and distribution; provided that the Committee may, in the appropriate award agreement or otherwise, permit transfers of Nonstatutory Stock Options with or without tandem SARs, freestanding SARs and Restricted Stock or Restricted Stock Units to Family Members (including, without limitation, transfers effected by a domestic relations order) subject to such terms and conditions as the Committee shall determine.

(b) Beneficiary Designation. Each Participant under the Plan may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid or by whom any right under the Plan is to be exercised in case of the Participant's death; provided that, if the Participant shall not have designated any beneficiary under this Plan, the Participant's beneficiary shall be deemed to be the person designated by the Participant under the group life insurance plan of the Company or a Subsidiary in which such Participant participates (unless such designated beneficiary is not a Family Member). Each designation made hereunder will revoke all prior designations by the same Participant with respect to all Awards previously granted (including, solely for purposes of this Plan, any deemed designation), shall be in a form prescribed by the Committee, and will be effective only when received by the Committee in writing during the Participant's lifetime. In the absence of any such effective designation (including a deemed designation), benefits remaining unpaid at the Participant's death shall be paid to or exercised by the Participant's surviving spouse, if any, or otherwise to or by the Participant's estate. Except as otherwise expressly provided herein, nothing in this Plan is intended or may be construed to give any person other than Participants any rights or remedies under this Plan.

(c) Deferral of Payment. The Committee may, in the Award agreement or otherwise, permit a Participant to elect, upon such terms and conditions as the Committee may establish, to defer receipt of shares of Common Stock that would otherwise be issued in connection with an Award.

(d) No Guarantee of Employment or Participation. The existence of this Plan, as in effect at any time or from time to time, or any grant of Award under the Plan shall not interfere with or limit in any way the rights of the Company or any Subsidiary to terminate any Participant's employment or other service provider relationship at any time, nor confer upon any Participant any rights to continue in the employ or service of the Company or any Subsidiary or any other affiliate of the Company. Except to the extent expressly selected by the Committee to be a Participant, no person (whether or not an Employee, an Agent or a Participant) shall at anytime have a right to be selected for participation in the Plan or, having been selected as a Participant, to receive any additional awards hereunder, despite having previously participated in an incentive or bonus plan of the Company or an affiliate. The existence of the Plan shall not be deemed to constitute a contract of employment between the Company or any affiliate and any Employee, Agent or Participant, nor shall it constitute a right to remain in the employ or service of the Company or any affiliate. Except as may be provided in a separate written agreement, employment with or service for the Company or any affiliate is at-will and either party may terminate the participant's employment or other service provider relationship at any time, for any reason, with or without cause or notice.

(e) Tax Withholding. The Company or an affiliate shall have the right to deduct from all payments or distributions hereunder any federal, state, foreign or local taxes or other obligations required by law to be withheld with respect thereto. The Company may defer issuance of Common Stock upon the exercise of an Option or a SAR until such requirements are satisfied. The Committee may, in its discretion, permit a

Participant to elect, subject to such conditions as the Committee shall impose, (i) to have shares of Common Stock otherwise to be issued under the Plan withheld by the Company or (ii) to deliver to the Company previously acquired shares of Common Stock, in either case for the greatest number of whole shares having a Fair Market Value on the date immediately preceding the date of exercise not in excess of the minimum amount required to satisfy the statutory withholding tax obligations upon the corresponding exercise of an Option or a SAR settled in Common Stock.

(f) No Limitation on Compensation; Scope of Liabilities. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans if and to the extent permitted by applicable law. The liability of the Company or any affiliate under this Plan is limited to the obligations expressly set forth in the Plan, and no term or provision of this Plan may be construed to impose any further or additional duties, obligations, or costs on the Company or any affiliate thereof or the Committee not expressly set forth in the Plan.

(g) Requirements of Law. The granting of Awards and the issuance of shares of Common Stock shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(h) Term of Plan. The Plan shall be effective upon its adoption by the Board. The Plan shall continue in effect, unless sooner terminated pursuant to Section 9 above, until no more shares are available for issuance under the Plan.

(i) Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Iowa, without regard to principles of conflict of laws.

(j) No Impact On Benefits. Except as may otherwise be specifically stated under any employee benefit plan, policy or program, Awards shall not be treated as compensation for purposes of calculating an Employee's or Agent's right or benefits under any such plan, policy or program.

(k) No Constraint on Corporate Action. Except as provided in Section 9 above, nothing contained in this Plan shall be construed to prevent the Company, or any affiliate, from taking any corporate action (including, but not limited to, the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets) which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No director, beneficiary, or other person shall have any claim against the Company, or any of its affiliates, as a result of any such action.

(l) Indemnification. Each member of the Board and each member of the Committee shall be indemnified and held harmless by the Company and each Employer

against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member of the Board or Committee in connection with or resulting from any claim, action, suit, or proceeding to which such member may be made a party or in which such member may be involved by reason of any action taken or failure to act under the Plan (in the absence of bad faith) and against and from any and all amounts paid by such member in settlement thereof, with the Company's approval, or paid by such member in satisfaction of any judgment in any such action, suit, or proceeding against such member, provided that such member shall give the Company an opportunity, at its own expense, to handle and defend the same before such member undertakes to handle and defend it individually. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which any such person may be entitled under the Company's Certificate of Incorporation or By-Laws, by contract, as a matter of law, or otherwise.

(m) Rights as a Stockholder. A Participant shall have no rights as a stockholder with respect to any shares of Common Stock covered by any Award until the Participant shall have become the holder of record of such shares.

(n) Captions. The headings and captions appearing herein are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of the Plan.

GUIDELINES FOR THE OPERATION OF THE STOCK INCENTIVE PLAN

Section 3(a). Notwithstanding anything in the Stock Incentive Plan to the contrary, in no event shall the number of shares of Common Stock that may be made issuable or distributable under all Company Stock Plans (including, without limitation, the Stock Incentive Plan) other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan within 18 months of the effective date of the Plan of Conversion exceed 40% of the total number of shares available for grant under Section 4(a).

Section 3(b)(3). Notwithstanding anything in the Stock Incentive Plan to the contrary, in no event shall the number of shares of Common Stock awarded by the Chief Executive Officer pursuant to Section 3(b)(3) within 18 months of the effective date of the Plan of Conversion exceed 5% of the total number of shares available for grant under Section 4(a).

On behalf of the Board of Directors of the Company, this Stock Incentive Plan has been executed this day of June, 2001.

By:

C. Daniel Gelatt, Jr.

EXHIBIT 10.2

PRINCIPAL FINANCIAL GROUP
LONG-TERM PERFORMANCE PLAN

(As Amended and Restated as of January 1, 2001)

ARTICLE I

PURPOSE; HISTORY

1.1 Purpose. The purpose of the Plan is to provide incentives to key employees of the Principal Financial Group(R) that would reward them for increasing the success of the business over the long-term.

1.2 History. The Plan was originally adopted by Principal Life Insurance Company of Des Moines, Iowa in November 1986, and has since been amended from time to time. Prior to the date of this amendment and restatement, the Plan was amended and restated in November, 1999 ("Prior Plan"). This amended and restated version of the Plan is essentially the same as the Prior Plan, as in effect on December 1, 1999, but has been adopted and assumed by the Company with respect to Performance Periods commencing on or after January 1, 2001, and revised in terms of its administration and presentation in light of the anticipated public market for the Common Stock as a result of the proposed demutualization of the Company. Awards made in respect of Performance Periods commencing prior to January 1, 2001 shall be governed under the terms of the Prior Plan, unless specifically provided otherwise in the Plan.

ARTICLE II

DEFINITIONS

For the purposes of this Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise:

"Account" means the records that will be established to record amounts deferred by a Participant under the Plan.

"Adjusted Consolidated GAAP Equity" for any period means the equity of the Company and its consolidated subsidiaries, taken as a whole, as determined in accordance with GAAP, adjusted for accumulated other comprehensive income or loss, as defined by GAAP, unless otherwise determined by the Committee.

"Agents Savings Plan" means The Principal Select Savings Plan for Individual Field.

"Three-Year Average ROE" means, with respect to any three-year period, the sum of the ROE identified separately for each of the three years in the period, divided by three.

"Beneficiary" or "Beneficiaries" means the person, persons or entity entitled under Article VI to receive any Plan benefits payable after a Participant's death.

"Board" means the Board of Directors of the Company, or the successor thereto.

"Cause" means any one or more of the following:

(i) a Participant's commission of a felony or other crime involving fraud, dishonesty or moral turpitude;

(ii) a Participant's willful or reckless material misconduct in the performance of the Participant's duties;

(iii) a Participant's habitual neglect of duties; or

(iv) a Participant's willful or intentional breach of obligations to an Employer, provided that, if such breach involved an act, or a failure to act, which was done, or omitted to be done, by a Participant in good faith and with a reasonable belief that a Participant's act, or failure to act, was in the best interests of the Company or was required by applicable law or administrative regulation, such breach shall not constitute Cause, if, within 30 days after a Participant is given written notice of such breach that specifically refers to this definition, a Participant cures such breach to the fullest extent that it is curable;

provided, however, that Cause shall not include any one or more of the following:

(1) a Participant's negligence, other than a Participant's habitual neglect of duties or gross negligence; or

(2) any act of omission believed by a Participant in good faith to have been in or not opposed to the interest of the Company (without intent of the Participant to gain, directly or indirectly, a profit to which the Participant was not legally entitled).

"Committee" means the Human Resources Committee of the Board or such other committee of the Board as the Board shall designate from time to time, which committee shall be composed of two or more outside directors.

"Common Stock" means the common stock, par value $0.01 per share. of Principal Financial Group, Inc., a Delaware corporation, and any successor thereto.

"Company" means Principal Mutual Holding Company and its successors and assigns and any company which shall acquire substantially all of its assets.

"Company Stock Plan" means any stock option plan, stock incentive plan, stock purchase plan and share ownership plans related to the Common Stock that are customary for publicly traded companies, and shall include the Directors Stock Plan, the Plan, the Savings Plans, the Stock Incentive Plan and the Stock Purchase Plan.

"Directors Stock Plan" means the Principal Financial Group, Inc. Directors Stock Plan.

"Disability" or "Disabled" means becoming eligible to receive long-term disability benefits under a plan, policy or program sponsored or maintained by the Company or a Subsidiary.

"Employees Savings Plan" means the Principal Select Savings Plan for Employees.

"Employer" means the Company and any Subsidiary whose employees are designated as Participants under the Plan.

"End Imputed Value" will be determined by the average closing stock price of the Common Stock for the last 20 trading days of a Performance Period, after any Initial Public Offering. Prior to any Initial Public Offering, End Imputed Value will be based on the following quotient:

(i) the product of

(A) 10 times

(B) the Three-Year Average ROE for the three year period ended on the last day of the calendar year ended coincident with the end of the Performance Period times

(C) the Adjusted Consolidated GAAP Equity as of the last day of the calendar year ended coincident with the end of the Performance Period, divided by

(ii) the total number of Initial Performance Units established for the Performance Period (regardless of whether awarded to Participants).

Notwithstanding the foregoing, if an Initial Public Offering occurs during a Performance Period under the Plan or a performance period under the Prior Plan, the Committee may determine End Imputed Value based on the above quotient or the stock price, as it deems advisable. Further, pursuant to Section 3.2(d), in determining the number and value of Final Performance Units to be awarded with respect to a Transition Period as defined therein, the Committee may make any adjustment, change or conversion as it deems necessary or advisable to achieve an appropriate assessment of, and compensation for, performance during such Transition Period.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Excess Plan" means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

"Final Performance Units" with respect to a Performance Period means the number of Performance Units resulting following the adjustment to the number of Initial Performance Units awarded for such Performance Period pursuant to Section 3.2(b).

"GAAP" means generally accepted accounting principles, consistently applied.

"Initial Performance Units" means the Performance Units initially established by the Committee with respect to any given Performance Period.

"Initial Public Offering" means the first underwritten offering of Common Stock to the public.

"Operating Earnings" means operating earnings of the Company and its consolidated subsidiaries, consistent with GAAP principles, unless otherwise determined by the Committee.

"Participant" with respect to a Performance Period means an employee who has been granted an award of Initial Performance Units for such Performance Period. For the purposes of Article V, "Participant" shall include only an employee who was employed by an Employer on or before the date of the applicable Change of Control.

"Performance Factor" means a multiplier, stated as a percentage, determined based on the Performance Matrix established for the Performance Period, that shall serve to increase or decrease the number of Initial Performance Units based on the performance of the Company and its consolidated subsidiaries during the Performance Period.

"Performance Matrix" means a matrix established by the Committee not later than March 15 of the relevant Performance Period that will establish the multiplier which will apply to each Participant's Initial Performance Units based on the actual performance of

the Company and its consolidated subsidiaries against the Performance Objectives for the relevant Performance Period, subject to any actions by the Committee pursuant to Section 3.2(c).

"Performance Objectives" means one or more pre-established performance measures established by the Committee with respect to a Performance Period. The Committee may establish several levels of achievement for each Performance Objective established, to reflect the level of recognition to be afforded to partial achievement of, or to surpassing, the level of achievement targeted for such objective for such Performance Period. The measures of performance shall be selected by the Committee from such measures as the Committee shall deem appropriate, including, without limitation, ROE, Operating Earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), and total shareholder return.

"Performance Period" means each three calendar year period beginning during the term of the Plan.

"Performance Units" means Initial Performance Units and Final Performance Units.

"Plan" means the Principal Financial Group Long-Term Performance Plan, as currently in effect and as the same may be amended from time to time.

"Plan of Conversion" means the Plan of Conversion of Principal Mutual Holding Company.

"Plan Administrator" means the Corporate Management Committee of the Company, as provided in Section 7.1, or such other committee or persons approved by the Board.

"Retirement" means a termination of a Participant's employment for any reason other than death, Disability or Cause and qualifying to retire under the terms of any pension plan maintained by the Company or a Subsidiary.

"ROE" means, with respect to any calendar year, Operating Earnings divided by the average Adjusted Consolidated GAAP Equity for the year (prior 12-month period ending Adjusted Consolidated GAAP Equity plus end of 12-month period Adjusted Consolidated GAAP Equity, divided by two) unless otherwise determined by the Committee.

"Savings Plans" means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

"Start Imputed Value" will be determined by the average closing stock price of the Common Stock for the last 20 trading days of the prior Performance Period, after any Initial Public Offering. Prior to an Initial Public offering, Start Imputed Value will be based on the following quotient:

(i) the product of

(A) 10 times

(B) the Three-Year Average ROE for the three year period ended on the last day of the last calendar year ended prior to the commencement of the Performance Period times

(C) the Adjusted Consolidated GAAP Equity as of the last day of the last calendar year ended prior to the commencement of the Performance Period, divided by

(ii) the total number of Initial Performance Units established for the Performance Period (regardless of whether awarded to Participants).

"Stock Incentive Plan" means the Principal Financial Group, Inc Stock Incentive Plan.

"Subsidiary" means (1) any entity in which the Company, directly or indirectly, owns at least 50% of the outstanding equity interests and over which the Company has effective control, or (2) any other entity or joint venture, domestic or non-domestic, in which the Company, directly or indirectly, owns an interest and that is designated a "Subsidiary" by the Plan Administrator for purposes of this Plan.

"Threshold Objectives" means one or more minimal performance objectives established hereunder and communicated to Participants at the time an Initial Performance Unit award is communicated that must be achieved in order for any payment to be made in respect of Performance Units awarded for such Performance Period. Such Threshold Objectives may be any measure of performance that the Committee shall deem appropriate, provided that, for the Performance Period commencing in 2001 and, unless otherwise specified by the Committee by March 15 of the relevant Performance Period, the Threshold Objectives shall be:

(1) Adjusted Consolidated GAAP Equity for the year ending simultaneously with the end of the Performance Period, stated as a percentage of the general account assets of Principal Life Insurance Company, must be at least 6%; and

(2) Principal Life Insurance Company must have a Risk Based Capital ratio (as defined by the National Association of Insurance Commissioners) of at least 150%; and

(3) ROE for the last calendar year in the Performance Period must exceed a minimum level established for such Performance Period in the Performance Matrix; and

(4) Operating Earnings for the Performance Period must exceed a minimum level established for such Performance Period in the Performance Matrix.

ARTICLE III

ELIGIBILITY, PARTICIPATION AND VESTING UNDER THE PLAN

3.1 Eligibility. Eligibility to participate in the Plan shall be limited to a select group of management who are key contributors to the success of the Company and the Subsidiaries and designated by the Committee or Chief Executive Officer as Participants in the Plan.

3.2 Awards of Performance Units.

(i) Grants. The Committee shall establish the number of Initial Performance Units that shall be deemed outstanding with respect to any Performance Period. Each Participant in a Performance Period shall be awarded the number of Initial Performance Units as the Committee shall determine; provided that, the Committee may delegate to the Chief Executive Officer the authority to award Initial Performance Units to officers holding titles below Senior Vice President who are not reporting officers under Section 16(a) of the Securities Exchange Act of 1934. The Committee and the Chief Executive Officer shall not be required to award all of the Initial Performance Units to Participants in respect of any Performance Period. Each Initial Performance Unit shall have a Start Imputed Value. The Company shall communicate to each Participant the number of Initial Performance Units awarded, and the Start Imputed Value thereof, not later than March 31 in the relevant Performance Period unless the Participant first receives Initial Performance Units for such Performance Period at a later time.

(ii) Adjustment to Number of Initial Performance Units. The number of Performance Units allocated to each Participant for a Performance Period shall be adjusted at the end of such Performance Period by multiplying that number by the Performance Factor. The resulting number of Performance Units shall be referred to as the Final Performance Units.

(iii) Impact of Extraordinary Items. In comparing actual performance against the Performance Objectives, the Committee may exclude from such comparisons any extraordinary gains, losses, charges, or credits which appear on the Company's books and records as it deems appropriate. An extraordinary item may include, without limiting the generality of the foregoing, an item in the Company's financial statements reflecting an accounting rule, tax law, or major legislative change not taken into consideration in the establishment of the Performance Objectives. In addition, the impact of a material disruption in the U. S. economy or a substantive change in the Principal Financial Group's business plans also may be deemed to be such an extraordinary item.

(d) Transition Period. In order to assure that the objectives of the Plan are met for any Performance Period under the Plan or performance period under the Prior Plan in which an Initial Public Offering occurs (a "Transition Period"), the Committee may establish a formula for conversion of existing Performance Units into Performance Units based on the value of the publicly issued and outstanding Common Stock, including with respect to Final Performance Units that have been deferred pursuant to Section 4.9 and under the Prior Plan, and the Committee may make such other changes, adjustments and determinations with respect to the Performance Factor, Performance Matrix and Performance Objectives for such Transition Period as it shall deem necessary or advisable to achieve an appropriate assessment of, and compensation for, performance during such Transition Period.

3.3 Vesting. Except as otherwise provided in Article IV and Article V, a Participant's right to receive a payment in respect of an award of any Performance Units shall only become vested and shall cease to be subject to forfeiture if the Participant has been continuously employed by the Company or a Subsidiary throughout the entire Performance Period.

ARTICLE IV

DISTRIBUTIONS

4.1 Distributions in Respect of Performance Units. Except as otherwise provided in this Article IV or Article V, payment shall be made as soon as practical after the end of a Performance Period to each Participant who has been continuously employed by the Company or a Subsidiary for the entire Performance Period. The amount payable to each Participant shall be equal to the product of the number of Final Performance Units held by the Participant and the End Imputed Value. Unless the Committee shall otherwise determine, payment of such amount may be made in (i) cash, if at the time of payment an Initial Public Offering has not occurred or (ii) cash, shares of Common Stock, or any combination of cash and shares of Common Stock, if at the time of payment an Initial

Public Offering has occurred. Payment in Common Stock shall be based on the average closing stock price of the Common Stock for the last 20 days of the prior Performance Period.

4.2 Threshold Performance. Notwithstanding anything else contained in this Plan to the contrary, no payment shall be made to any Participant in respect of any Performance Period if the Threshold Objectives with respect to such Performance Period are not satisfied. Moreover, in no event shall the sum of all awards for a three-year award cycle, whether paid or deferred, under the Plan for all of the Principal Financial Group exceed 5% of pre-tax GAAP operating earnings for the third year of a performance cycle (disregarding awards deferred from any prior three-year award cycle for payout in the year in question). If the awards calculated for this year (disregarding awards deferred from prior award cycles) would exceed such 5% pre-tax GAAP operating earnings, all calculated awards, whether paid or deferred, under the plan shall be proportionately reduced so that the awards in the aggregate equal 5% of pre-tax GAAP operating earnings.

4.3 Distributions on the Participant's Death. If a Participant dies prior to the end of any Performance Period that commenced at least one year prior to the Participant's death, the Participant's Beneficiary (or, if none is named, the Participant's estate) shall receive a distribution at the same time and in the same amount as though the Participant remained employed through the end of the Performance Period, unless payment at an earlier date is otherwise authorized by the Plan Administrator. If a Participant dies prior to the end of a Performance Period that commenced less than one year prior to the Participant's death, the Participant's Beneficiary (or, if none is named, the Participant's estate) shall receive a distribution at the same time as other Participants receive their distributions under the Plan, unless payment at an earlier date is otherwise authorized by the Plan Administrator, but the amount payable shall be equal to the amount that would have been payable had the Participant been employed for the entire Performance Period, multiplied by a fraction, the numerator of which is the number of days in the Performance Period elapsed prior to the Participant's death and the denominator of which is 365.

4.4 Distributions on the Participant's Disability. If a Participant becomes Disabled, prior to the end of any Performance Period that commenced at least one year prior to the Participant's date of Disability, the Participant shall receive a distribution at the same time and in the same amount as though the Participant remained actively employed through the end of the Performance Period. If a Participant becomes Disabled prior to the end of a Performance Period that commenced less than one year prior to the Participant's date of Disability, the Participant shall receive a distribution at the same time as other Participants receive their distributions under the Plan, but the amount payable shall be equal to the amount that would have been payable had the Participant been actively employed for the entire Performance Period, multiplied by a fraction, the numerator of which is the number of days in the Performance Period elapsed prior to the Participant's

Disability and the denominator of which is 365. Notwithstanding the foregoing, if prior to the first anniversary of the date of the Participant's date of Disability, the Participant accepts employment with any entity that is in the financial services industry and is unrelated to the Company or a Subsidiary, the Participant shall cease to be eligible to receive any further payments under the Plan in respect of Performance Periods that had not ended prior to the date of the Participant's Disability.

4.5 Distribution on the Participant's Retirement. If a Participant's employment is terminated by reason of Retirement prior to the end of any Performance Period that commenced at least one year prior to the Participant's Retirement, the Participant shall receive a distribution at the same time and in the same amount as though the Participant remained employed through the end of the Performance Period. If a Participant's employment is terminated by reason of Retirement prior to the end of a Performance Period that commenced less than one year prior to the Participant's Retirement, the Participant shall receive a distribution at the same time as other Participants receive their distributions under the Plan, but the amount payable shall be equal to the amount that would have been payable had the Participant been employed for the entire Performance Period, multiplied by a fraction, the numerator of which is the number of days in the Performance Period elapsed prior to the Participant's Retirement and the denominator of which is 365. Notwithstanding the foregoing, if prior to the first anniversary of the date of the Participant's termination of employment, a Participant accepts employment with any entity that is in the financial services industry and is unrelated to the Company or a Subsidiary, the Participant shall cease to be eligible to receive any further payments under the Plan in respect of any Performance Period that had not ended prior to the date of the Participant's termination of employment.

4.6 Distributions on the Participant's Discharge for Cause. If a Participant's employment is terminated for Cause, as determined by the Company, the Participant shall not be entitled to receive any further payments under the Plan with respect to any Performance Period (including any Performance Period ended prior to such termination, but for which distributions have not yet been made under Section 4.1), except such amounts as were deferred pursuant to Section 4.9 or pursuant to the Prior Plan.

4.7 Distribution on Other Termination of Employment. If a Participant's employment is terminated for any other reason other than those otherwise outlined above, the Participant shall not be entitled to receive any payment in respect of any Performance Period that had not ended prior to the date of the Participant's termination of employment.

4.8 Distribution on the Participant's Transfer. Unless otherwise determined by the Committee, if a Participant is transferred to a position which is not eligible to participate in the Plan or to employment with a subsidiary which does not participate in the Plan, service in the new position shall count as continued employment for purposes of

determining the Participant's vested interest in any Performance Units awarded for Performance Periods then in progress. In such circumstances, the Participant will continue to participate in the Plan with respect to such Performance Periods until the earlier of (i) the end of such Performance Period or (ii) the termination of the Participant's employment with the Company and each Subsidiary by which the Participant was employed, in which case, such Participant's rights under the Plan shall be determined under this Article IV, based on the reason for such termination of employment.

4.9 Deferral Election.

(a) Voluntary Deferral. A Participant may elect to defer payment of all or a portion of the amount otherwise payable to the Participant pursuant to the terms of the Plan in respect of Final Performance Units. Such deferral may permit payment to be delayed until the earlier to occur of (i) the end of any calendar year ending not later than the fifth anniversary of the Performance Period for which such amount is payable and (ii) the termination of the Participant's employment for any reason, unless the Participant's employment terminated due to Retirement or the Participant becomes Disabled. Any such election shall be in writing, on a form prescribed for such purpose by the Plan Administrator, and delivered to the Plan Administrator or its designee prior to the first day of the final year of a Performance Period for which such amount is payable. With respect to any Performance Periods under the Plan or performance periods under the Prior Plan for which the Committee has not determined, prior to the start of the last year of such period, whether the award will be paid in cash, Common Stock, or a combination thereof, a Participant may make a deferral election contingent on the form of payment. In addition, if the Committee so allows, a Participant may specify in such deferral election the form of payment to be deferred whether or not the Committee has determined, prior to the start of the last year of such period, the form of award payment for such period.

(b) Earnings on Deferrals. Any amount deferred by the Participant pursuant to the preceding paragraph shall be credited to an Account established for the Participant. The amount held in such Account shall be deemed to continue to be invested in the same Final Performance Units that relate to such Performance Period, but the value thereof shall be adjusted as provided in Section 4.9(c) below.

(c) Distribution of Deferral Account. Final Performance Units deferred that were payable in Common Stock shall be distributed in Common Stock. The number of shares distributed shall be equal to the number of shares that would have originally been distributed in the absence of deferral, adjusted for stock splits, stock dividends and reinvestment of cash dividends between the end of the Performance Period for which the Final Performance Units were granted and the date the deferred amounts are actually distributed. Final Performance Units deferred that were payable in cash shall be distributed in cash. The amount distributed shall be based on the End Imputed Value for

the last Performance Period ended prior to the distribution. If the End Imputed Value is calculated based on the quotient set forth in Article II, then End Imputed Value shall be adjusted, if necessary, to make the denominator equal to the number of Initial Performance Units established for the Performance Period for which the Final Performance Units were granted. If the End Imputed Value is based on the price of Common Stock, adjustments set forth in Section 3.2(d) shall be made, if necessary.

ARTICLE V

CHANGE OF CONTROL

Capitalized words used in this Article V have the meaning ascribed to them under The Principal Severance Pay Plan for Senior Executives as amended from time to time, unless the context clearly indicates otherwise. Notwithstanding the foregoing, the following terms shall have the meanings ascribed to them in Article II hereof: Board, Company, Disability, Employer, Participant, Plan.

5.1 Change of Control Payments. Within ten (10) days following the later of a Change of Control Date or Merger of Equals Cessation Date ("Trigger Date"), the Company shall pay each Participant the sum of (a) the Pro-Rata LTIP Bonus and (b) the amount of all LTIP Bonuses earned but either deferred or not yet paid as of the date of the Trigger Date, in satisfaction of the Company's obligations under the LTIP for periods prior to the Trigger Date.

5.2 Termination during the Post-Change Period. If, during the Post-Change Period (other than during a Post-Merger of Equals Period) a Participant's employment is terminated other than for Cause or Disability, or a Participant terminates employment for Good Reason, the Company shall pay the Participant the Participant's Pro-rata LTIP Bonus reduced (but not below zero) by the amount of any LTIP Bonus previously paid to Participant with respect to any Performance Period that had not ended prior to the date of the Participant's termination of employment.

ARTICLE VI

BENEFICIARY DESIGNATION

6.1 Beneficiary Designation. A Participant shall have the right, at any time, to designate one (1) or more persons or an entity as the Participant's Beneficiary (both primary as well as secondary) to whom benefits under this Plan shall be paid in the event of Participant's death. Each Beneficiary designation shall be in a written form and shall be filed with the Plan Administrator during the Participant's lifetime. If a Participant fails to designate a Beneficiary or if a Beneficiary does not survive the Participant, payment will be made to the Participant's estate in the event of the Participant's death.

6.2 Beneficiary. A Participant may change his/her Beneficiary at any time by completing a new beneficiary designation form. The change will take effect only after it is received by the Plan Administrator and determined to be in good order. Any previous Beneficiary's interest under the Plan will end as of the date the request is received (so long as it is thereafter determined to be in good order).

ARTICLE VII

ADMINISTRATION

7.1 Administration of the Plan. The Plan Administrator shall be the Corporate Management Committee of the Company or such other committee, entity or persons approved by the Board. The Plan Administrator shall maintain such procedures and records as will enable the Plan Administrator to determine the Participants and their Beneficiaries who are entitled to receive benefits under the Plan and the amounts thereof.

7.2 General Powers of Administration. The Committee shall have the exclusive right, power, and authority, in its sole, full and absolute discretion, to interpret any and all of the provisions of the Plan, to supervise the administration and operation of the Plan, and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any claim for benefits arising under the Plan. Any decision or action of the Committee or the Plan Administrator shall be conclusive and binding on all parties, including the Participants. The Committee and the Plan Administrator shall also have the discretion and authority to adopt and revise rules and procedures relating to the Plan, to correct any defect or omission or reconcile any inconsistency in this Plan or any payment hereunder, and to make any other determinations that they believe necessary or advisable in the administration of the Plan.

7.3 Limitations in Plan of Conversion. Notwithstanding anything else contained in the Plan to the contrary, no portion of any Participant's Account may be deemed invested in Common Stock until the six month anniversary of the effective date of the Plan of Conversion. No action shall be taken, and no award or distribution shall be made, under the Plan, which contains any term or condition that would violate any provision of the Plan of Conversion. To the extent that shares of Common Stock are made available for distribution hereunder, the number of such shares distributed hereunder shall count against (i) the limit of 6% of the number of shares of Common Stock outstanding immediately following the effective date of the Plan of Conversion that may be made issuable or distributable under all Company Stock Plans (including, without limitation, the Plan) other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan, and (ii) the operational guideline established pursuant to the Stock Incentive Plan limiting the maximum number of shares of Common Stock that may be awarded or issued within 18 months of the effective date of the Plan of Conversion to 40% of the limit set forth in subclause (i).

ARTICLE VIII

AMENDMENT AND TERMINATION OF PLAN

8.1 Amendment of the Plan. The Committee shall have the authority to amend the Plan at any time and from time to time. Any such amendments must be made by written instrument, and notice of such amendment shall be provided to Participants as soon as practicable after adoption.

8.2 Termination of the Plan. The Company reserves the right to terminate the Plan in any respect and at any time and may do so at any time pursuant to a written resolution of the Committee.

8.3 Limitations on Amendment or Termination of the Plan. Notwithstanding anything else to the contrary set forth in the Plan, any amendment or termination of the Plan may not adversely affect the rights of any Participant or Beneficiary in respect of Performance Units previously awarded.

ARTICLE IX

MISCELLANEOUS

9.1 Unfunded / Participant's Rights Unsecured and Unfunded. This Plan is unfunded and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, no assets of the Company or any Subsidiary shall be segregated or earmarked to represent the liability for accrued benefits under the Plan. The right of a Participant (or any Beneficiary) to receive a payment hereunder shall be an unsecured claim against the general assets of the Company or any Subsidiary. All payments under the Plan shall be made from the general funds of the Company or the applicable Subsidiary. The Company and Subsidiaries are not required to set aside money or any other property to fund obligations under the Plan, and all amounts that may be set aside by the Company or Subsidiary prior to the distribution thereof under the terms of the Plan remain the property of the Company. The liability of the Company or any affiliate under this Plan is limited to the obligations expressly set forth in the Plan, and no term or provision of this Plan may be construed to impose any further or additional duties, obligations, or costs on the Company, any Subsidiary or the Committee not expressly set forth in the Plan.

9.2 No Right to Participate. No Participant or other employee shall at any time have a right to be selected for participation in the Plan, despite having previously participated in the Plan or any other incentive or bonus plan of the Company or any affiliate.

9.3 Plan is Not a Contract of Employment. The existence of this Plan, as in effect at any time or from time to time, or participation under the Plan, shall not be deemed to

constitute a contract of employment between the Company or any affiliate and any employee or Participant, nor shall it constitute a right to remain in the employ of the Company or a Subsidiary.

9.4 Parachute Cap. Unless the Participant has an agreement with the Company or a Subsidiary specifically providing otherwise:

(a) If it is reasonably determined by the computation of the independent auditors of the Company or a Subsidiary that any amount payable or deemed payable to such Participant under this Plan or otherwise (collectively, the "Payments") is or will become subject to any excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, or any similar tax payable under any United States federal, state, local or other law ("Excise Taxes") or will fail to be deductible by the Company or a Subsidiary by reason of Section 280G of the Internal Revenue Code of 1986, then the amount paid to such Participant under the Plan shall be reduced to the largest amount that may be paid without causing any portion of such payment to be subject to Excise Taxes or to not be deductible by the Company or a Subsidiary.

(9) If, after the receipt by a Participant of any payment hereunder, such Payment (or any portion thereof) shall become subject to any Excise Taxes or shall become nondeductible by the Company or a Subsidiary, the Participant shall repay to the Company or Subsidiary the amount that exceeds the greatest amount that could be paid to the Participant hereunder without causing the Participant to become liable for any Excise Taxes or without causing any of the Payments to become nondeductible by the Company.

9.5 Notice. Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered, sent by first class, registered or certified mail, or by such other means as the Committee, in its sole discretion, may deem appropriate. Such notice shall be deemed as given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification. Mailed notice to the Committee shall be directed to the Company's address, c/o the Corporate Management Committee. Mailed notice to a Participant or Beneficiary shall be directed to the individual's last known home address in the Participant's Employer's records.

9.6 No Guarantee of Benefits or Participation. Nothing contained in the Plan shall constitute a guaranty by any Employer or any other person or entity that the assets of such entity will be sufficient to pay any benefit hereunder.

9.7 Non-Alienation Provision. Subject to the provisions of applicable law, no interest of any person or entity in any Performance Unit (or, if applicable, any Account), or any right to receive any distribution or other benefit under the Plan, shall be subject in any

manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest in any Performance Unit (or, if applicable, any Account), or right to receive any distribution or any benefit under the Plan, be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including (but not limited to) claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

9.8 Applicable Law. The Plan shall be construed and administered under the laws of the State of Delaware, except to the extent that such laws are preempted by ERISA.

9.9 Taxes. The Company or a Subsidiary shall have the right to deduct, from amounts payable pursuant to the Plan or from other amounts payable to the Participant (or payable to the Beneficiary of the Participant, if the Participant is deceased), any taxes required by law to be withheld from such awards.

9.10 No Impact on Other Benefits. Amounts accrued and awards paid under the Plan will not be included in the definition of pay for the purposes of calculating benefits under the Company's or any Subsidiary's employee benefit plan nor considered base salary for the purpose of any incentive compensation plan.

9.11 Usage of Headings. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

9.12 No Limitation on Corporate Action. Nothing contained in this Plan shall be construed to prevent the Company, or a Subsidiary, from taking any corporate action which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No employee, beneficiary, or other person shall have any claim against the Company, or any Subsidiary, as a result of any such action.

9.13 Parties. Nothing express or implied in this Plan is intended or may be construed to give any person other than Participants and Beneficiaries any rights or remedies under this Plan.

9.14 Missing Participants. A recipient of any payment under this Plan who is not a current employee of the Company or a Subsidiary, shall have the obligation to inform the Company of his or her current address, or other location to which payments are to be sent. Neither the Company nor any Subsidiary shall have any liability to such recipient, or any other person, for any failure of such recipient, or person, to receive any payment if it sends such payment to the address provided by such recipient by first class mail, postage paid, or other comparable delivery method. Notwithstanding anything else in this Plan to the contrary, if a recipient of any payment cannot be located within 120 days following the date on which such payment is due after reasonable efforts by the Company

or a Subsidiary, such payments and all future payments owing to such recipient shall be forfeited without notice to such recipient. If, within two years (or such longer period as management, in its sole discretion, may determine), after the date as of which payment was forfeited (or, if later, is first due), the recipient, by written notice to the Company, requests that such payment and all future payments owing to such recipient be reinstated and provides satisfactory proof of their identity, such payments shall be promptly reinstated. To the extent the due date of any reinstated payment occurred prior to such reinstatement, such payment shall be made to the recipient (without any interest from its original due date) within 90 days after such reinstatement.

On behalf of the Human Resources Committee of the Board of Directors of the Company, this Amended and Restated Long-Term Performance Plan has been executed this day of June, 2001.

By:

C. Daniel Gelatt, Jr., Chair

EXHIBIT 10.3

PRINCIPAL FINANCIAL GROUP INCENTIVE PAY PLAN (PRINPAY)
AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2001

SECTION 1. INTRODUCTION AND PURPOSE

The Principal Financial Group Incentive Pay Plan (the "Plan") is designed to motivate employees who work for the Principal Financial Group(R) to perform at levels which will ensure the success of the Company. The Plan is intended to pay financial rewards based on performance. The Plan was originally adopted by Principal Life Insurance Company of Des Moines, Iowa on January 1, 1995 and has since been amended from time to time. Prior to the date of this restatement, the Plan was amended and restated on January 1, 1999. This amended and restated version of the Plan has been adopted and assumed by the Company as of January 1, 2001 The Plan remains in effect until amended, suspended or terminated.

SECTION 2. PLAN YEAR

The Plan Year is the calendar year beginning on January 1 and ending on December 31.

SECTION 3. DEFINITIONS

For the purposes of this Plan, the following terms shall have the meanings indicated, unless the context clearly indicates otherwise:

"Adjusted Consolidated GAAP Equity" for any period means the ending equity of the Company and its consolidated subsidiaries, taken as a whole, as determined in accordance with GAAP, adjusted for accumulated other comprehensive income or loss, as defined by GAAP, unless otherwise determined by the Committee.

"Award Component" means one of the following: corporate, business unit or individual performance weighted for a Participant.

"Award Opportunity" means the percentage of a Participant's Fixed Salary earnable under the Plan if target performance for the Plan Year is met.

"Award Opportunity Scale" means the percentage of the Award Opportunity earnable under the Plan if minimum, maximum or any other scale factors that have been identified are met. The Award Opportunity Scale is a percentage of the Award Opportunity. The Award Opportunity Scale may be any that the Committee shall deem appropriate, provided that, for the Plan Year commencing in 2001 and, unless otherwise specified by the Committee by March 15 of the relevant Plan Year, the Award Opportunity scale shall be 0%, 50%, 100%, 150% and 200% (maximum) of the Award Opportunity.

"Beneficiary" or "Beneficiaries" means the person, persons or entity entitled under Section 7 to receive any Plan benefits payable after a Participant's death, If a Participant dies before receiving an award to which he or she is entitled, the award will be paid to the person(s) or entity designated as the beneficiary for the Participant's life insurance benefit through The Principal Trust for Life Insurance Benefits for Employees.

"Board" means the Board of Directors of the Company, or the successor thereto.

"Cause" shall mean any one or more of the following:

(i) a Participant's commission of a felony or other crime involving fraud, dishonesty or moral turpitude;

(ii) a Participant's willful or reckless material misconduct in the performance of the Participant's duties;

(iii) A Participant's habitual neglect of duties; or

(iv) A Participant's willful or intentional breach of obligations to an Employer, provided that, if such breach involved an act, or failure to act, which was done, or omitted to be done, by a Participant in good faith and with a reasonable belief that a Participant's act, or failure to act, was in the best interest of the Company or was required by applicable law or administrative regulation, such breach shall not constitute Cause, if, within 30 days after a Participant is given written notice of such breach that specifically refers to this definition, a Participant cures such breach to the fullest extent that it is curable;

provided, however, that Cause shall not include any one or more of the following:

(i) a Participant's negligence, other than a Participant's habitual neglect of duties or gross negligence; or

(ii) any act or omission believed by a Participant in good faith to have been in or not opposed to the interest of the Company (without intent of the Participant to gain, directly or indirectly, a profit to which the Participant was not legally entitled).

"Committee" means the Human Resources Committee of the Board or such other committee of the Board as the Board shall designate from time to time, which committee shall be composed of two or more outside directors.

"Company" means Principal Mutual Holding Company and its successors and assigns and any company which shall acquire substantially all of its assets.

"Disability" means, with respect to any Participant, long-term disability as defined under any long-term disability plan maintained by the Company or a Subsidiary in which the Participant participates. In the event of any question as to whether a Participant has a Disability, the plan administrator of the relevant long-term disability plan shall determine whether a disability exists, in accordance with such plan.

"Employer" means the Company and any Subsidiary whose employees are designated as Participants under the Plan.

"Exempt" means an employee who is not subject to the minimum wage and overtime pay provisions of the Fair Labor Standards Act. These employees include executives, administrative employees, professional employees and those engaged in outside sales.

"Fair Labor Standards Act" means 29 U.S.C. Section 201 et seq.

"Final Warning" means a disciplinary action designated to be a final warning.

"Fixed Salary" means the gross amount of earnings received for base salary, lump sum merit, Personal Time Off, shift differential, on-call pay, holiday pay, overtime and short-term disability coverage during the Plan Year. Fixed Salary does not include the award earned under this Plan or any other bonus, incentive or commission and paid in the current Plan Year.

"GAAP" means generally accepted accounting principles, consistently applied.

"Individual Goals" means one or more financial or non-financial measure established for the Plan Year between the Participant and the Participant's leader, at 100% performance, which may also have written Award Opportunity Scales.

"Job Level" means an Employer's internal hierarchical level of a job that is used to determine eligibility and participation in corporate programs and amenities.

"Non-exempt" means an employee who is subject to the minimum wage and overtime pay provisions of the Fair Labor Standards Act.

"Operating Earnings" means operating earnings of the Company and its consolidated subsidiaries, consistent with GAAP principles, unless otherwise determined by the Committee.

"Participant" means an employee who has met the eligibility requirements for the Plan Year. For the purposes of Section 8, "Participant" shall include only an employee who was employed by an Employer before the date of the applicable Change of Control.

For purposes of Section 8 "Executive Participant" means an employee at the level of vice president or equivalent and above who has met the eligibility requirements for the Plan Year. For the purposes of Section 8, "Executive Participant" shall include only an employee who was employed by an Employer before the date of the applicable Change of Control.

"Performance Measures" means one or more financial or non-financial measures established for the Plan Year. The Committee shall establish performance levels of achievement for the Award Opportunity Scale, in order to reflect the level of recognition to be afforded to partial achievement of, or to surpassing, the level of achievement targeted for such objective for such Plan Year. The corporate and business unit Performance Measures shall be selected from such measures as the Committee or Plan Administrator shall deem appropriate, including, without limitation, ROE, Operating Earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), budget, customer satisfaction and total shareholder return.

"Plan" means the Principal Financial Group Incentive Pay Plan, as currently in effect and as the same may be amended from time to time,

"Plan Administrator" means the committee, committees or persons in Section 9, that have been designated by the Chief Executive Officer and approved by the Committee.

"Retirement" means a termination of a Participant's employment for any reason other than death, Disability or Cause and qualifying to retire under the terms of any pension plan maintained by the Company or a Subsidiary.

"ROE" means, with respect to any calendar year, Operating Earnings divided by the average Adjusted Consolidated GAAP Equity for the year (prior 12-month period ending Adjusted Consolidated GAAP Equity plus end of 12-month period Adjusted Consolidated GAAP Equity, divided by two) unless otherwise determined by the Committee.

"Pro-Ration Factor" means the number of days as a Participant under the Plan divided by 365 days.

"Subsidiary" means (1) any corporation in which the Company owns, directly or indirectly, at least 50% of the outstanding equity interests and over which the Company has effective control, or (2) any other entity or joint venture, domestic or non-domestic, in which the Company, directly or indirectly, owns an interest and that is designated in writing as a "Subsidiary" by the Plan Administrator for purposes of this Plan.

"Threshold Objectives" means one or more minimal performance objectives established hereunder that must be achieved in order for any payment to be made for the Plan Year. Such Threshold Objectives may be any measure of performance that the Committee shall deem appropriate, provided that, for the Plan Year commencing in 2001 and, unless otherwise specified by the Committee by March 15 of the relevant Plan Year, the Threshold Objectives shall be:

(1) The Principal must maintain the minimum claims paying/financial strength rating from 2 of the 3 rating agencies: Fitch AA-, Moody's Aa3 and Standard & Poors AA-; and

(2) Adjusted Consolidated GAAP Equity for the end of the Plan Year, stated as a percentage of the general account assets of Principal Life Insurance Company, must be at least 6%; and

(3) Principal Life Insurance Company must have a Risk Based Capital Ratio (as defined by the National Association of Insurance Commissioners) of at least 150%.

SECTION 4. ELIGIBILITY

Exempt employees of an Employer are Participants in the Plan on their date of hire. Non-exempt employees of an Employer are eligible to participate in the Plan if they work at least 20 hours per week on a regularly scheduled basis and become a Participant after completing six months of employment.

Unless pre-approved by the Plan Administrator in writing, an employee who is a Participant in the Plan is not eligible to participate in any other Company or Subsidiary annual incentive, bonus or commission plan. Unless pre-approved by the Plan Administrator in writing, employees who are participants in other annual incentives, bonus or commission plans are not eligible to be Participants in the Plan.

SECTION 5. TARGET AWARD OPPORTUNITY, PERFORMANCE MEASURES AND SCALES

Participants will be assigned an Award Opportunity based on their job or Job Level with an Employer . The Award Opportunity will be paid if stated target Performance Measures are achieved. The Plan Administrator will approve the Award Opportunity and Award Opportunity Scale for Participants at and below the Vice President level. The Committee will approve the Award Opportunity and Award Opportunity Scale for Participants at the Senior Vice President level or above.

Each Participant's Award Opportunity and Award Opportunity Scale will be segmented into one or more of the following Award Components: corporate, business unit and/or individual, as determined by the Plan Administrator for Participants at and below the Vice President Level, and by the Committee for Participants at the Senior Vice President level or above. The weighting of these components will be determined by the Plan Administrator or the Committee as the case may be. One component's performance will not directly affect the portion of the Award Opportunity earnable from another component except as it relates to the Threshold Objectives.

At the start of each Plan Year, Performance Measures that correspond to the Award Opportunity Scale will also be determined. Corporate Performance Measures will be approved by the Committee. Business Unit Performance Measures will be approved by the Plan Administrator. Individual Goals will be set jointly between the Participant and the Participant's leader. The Individual Goals for the Chief Executive Officer of The Principal shall be established by the Committee. The Individual Goals can vary from year to year, from one position to another, and from one incumbent to another. Where the development of appropriate Individual Goals for a partial year would be impractical, eligibility for the individual component may be delayed until the following Plan Year or paid at the Award Opportunity level with approval by the leader.

SECTION 6. AWARD DETERMINATION

Unless otherwise determined by the Plan Administrator in writing, the Participant's Award Opportunity for calculation of the annual award is determined by the Participant's job or Job Level and business unit with an Employer held on the last day of the Plan Year and will be applied for the entire Plan Year.

Unless otherwise determined by the Plan Administrator, Pro-Ration Factor will be applied to a Participant's award if the Participant transfers to or from a ineligible position within the Plan Year.

When needed, interpolated performance levels for Corporate Performance Measures, Business Unit Performance Measures, and where appropriate, Individual Goals will be established on a straight-line basis in the Award Opportunity Scale. If actual performance falls below the minimum Performance Measure set forth for a particular Award Component, that Award Component will be zero, If actual performance is above the maximum Performance Measure for a particular Award Component, that Award Component will be the maximum determined by the Committee.

Notwithstanding anything else contained in this Plan to the contrary, all Threshold Objectives with respect to such Plan Year must be met in order for any award to be made under this Plan.

The Committee approves corporate and business unit Performance Measure results. Leaders approve Individual Goal results.

At the end of the Plan Year the value of the actual awards is calculated by completing the following steps. Step 1: Determination of the Component Score. The Component Score is the corporate, business unit or individual component percentage that is the weighted average of the scores of the Performance Measures for one or more Performance Measures and Individual Goals established for each component. Step 2: Determination of Award Score. The Award Score is the weighted average of Component Scores for the appropriate components (corporate, business unit, individual). Step 3: Determination of Participant award. The annual award paid to each will be calculated by multiplying, 1) the Participant's Fixed Salary earnings received during the Plan Year; by 2) the Award Opportunity, by (3) Award Score, and by (4) the Pro-Ration Factor.

In comparing actual performance against the Performance Measures, the Committee, by recommendation of the Chief Executive Officer may exclude from such comparison any extraordinary gains, losses, charges, or credits which appear on the Company's books and records as it deems appropriate. An extraordinary item may include, without limiting the generality of the foregoing, an item in the Company's financial statements reflecting an accounting rule, tax law, or major legislative change not taken into consideration in the establishment of the Performance Measures. In addition, the impact of a material disruption in the U.S. economy or a substantive change in the Company's business plans also may be deemed to be such an extraordinary item.

In no event will the sum of all annual awards paid to Participants under the Plan exceed 6% of pre-tax GAAP operating earnings of the Company for the Plan Year. If the awards calculated for the year would so exceed 6% of operating earnings, all calculated awards under the plan shall be proportionately reduced so the awards aggregate to no more than 6% of operating earnings.

SECTION 7. DISTRIBUTIONS

No payment shall be made to any Participant who is on Final Warning any time during the Plan Year.

Award payments shall be made following the release of audited results after the end of the Plan Year in which they are earned, but no later than March 15.

Upon a Participant's death prior to the end of the Plan Year, the Participant's Beneficiary (or, if none is named, the Participant's estate) shall receive an early distribution based on the Fixed Salary received during the Plan Year, multiplied by the Award Opportunity. Upon a Participant's death following the close of the Plan Year, but prior to an Award payment, the Participant's Beneficiary (or, if none is named, the Participant's estate) shall receive a distribution at the same times as other Participants and the amount payable shall be calculated according to Section 6.

Unless otherwise determined by the Plan Administrator in writing, upon a Participant's Disability, Retirement, or involuntary termination due to office closing, downsizing or outsourcing, the Participant shall receive a distribution at the same time as other Participants and the amount payable shall be calculated according to Section 6.

If a Participant terminates and is rehired during a Plan Year, the Participant's eligibility will be restored as if they had not terminated and there will be no Pro-Ration Factor of the award payable to the Participant. Non-exempt employees who have not completed the 6-month employment period to be a

Participant in the Plan will use the adjusted service date to determine when they are eligible to be a Participant in the Plan.

If a Participant is separated from employment for Cause, as determined by the Company, the Participant shall not be entitled to receive any further payment under the Plan with respect to any Plan Year.

Except as provided in Section 8, if a Participant's employment is terminated for any other reason other than those otherwise outlined above, the Participant shall not be entitled to receive any payment in respect to any Plan Year that had not ended prior to the date of the Participant's termination of employment.

SECTION 8. CHANGE OF CONTROL

Capitalized words used in this Section 8 have the meaning ascribed to them under the Principal Severance Pay Plan for Senior Executives as amended from time to time, unless the context clearly indicates otherwise. Notwithstanding the foregoing, the following terms shall have the meanings ascribed to them in Section 3 hereof: Board, Company, Disability, Employer, Executive Participant, Participant, Plan.

Within ten (10) days following the later of a Change Date or Merger of Equals Cessation Date ("Trigger Date"), the Company shall pay each Executive Participant an amount equal to the Executive Participant's Target Annual Bonus for the year in which the Trigger Date occurs multiplied by fraction, the numerator of which is the number of days elapsed in the year up to and including the Trigger Date, and the denominator of which is 365, in satisfaction of the Company's obligations under the Plan for the period prior to the Trigger Date,

If, during the Post-Change Period (other than during a Post-Merger of Equals Period) an Executive Participant's employment is terminated other than for Cause or Disability, or an Executive Participant terminates employment for Good Reason, the Company shall pay the Executive Participant the Executive Participant's Target Annual Bonus for the year in which such termination occurs multiplied by a fraction, the numerator of which is the number of days elapsed in the year up to and including the Termination Date, and the denominator of which is 365, in satisfaction of the Company's obligations under the Plan for the period prior to the Termination Date, Any amounts payable under this paragraph shall be reduced (but not below zero) by the amount of any annual bonus paid to the Executive Participant with respect to the Employer's fiscal year in which the Termination Date occurs. If an Executive Participant receives a payment pursuant to this third paragraph of this Section 8, the Executive Participant may not also receive payment pursuant to the fourth paragraph of this Section 8.

If the Plan is terminated on or after the Trigger Date, within the same Plan year as the Trigger Date, or any amendment to the Plan is adopted that adversely affects the rights of any Participant or Beneficiary, the Company shall pay the Participant the Participant's Target Annual Bonus for the year in which such amendment or Plan termination occurs multiplied by a fraction, the numerator of which is the number of days elapsed in the year up to and including the amendment or Plan termination, and the denominator of which is 365, in satisfaction of the Company's obligations under the Plan for the period prior to the amendment or Plan termination. Any amounts payable under this paragraph shall be reduced (but not below zero) by the amount of any annual bonus paid to an Executive Participant with

respect to the Employer's fiscal year in which the Trigger Date occurs. If an Executive Participant receives a payment pursuant to this fourth paragraph of this Section 8, the Executive Participant may not also receive payment pursuant to the third,paragraph of this Section 8.

Any amounts payable under this Section 8 shall be reduced (but not below zero) by the amount of any annual bonus paid to an Executive Participant with respect to the Employer's fiscal year in which the Trigger Date occurs.

SECTION 9. ADMINISTRATION

The Plan Administrator shall maintain such procedures and records as will enable the Plan Administrator to determine the Participants and their Beneficiaries who are entitled to receive benefits under the Plan and the amounts thereof.

The Plan Administrator shall have the exclusive right, power, and authority, in its sole, full and absolute discretion, to interpret any and all of the provisions of the Plan, to supervise the administration and operation of the Plan, and to consider and decide conclusively any questions (whether fact or otherwise) arising in connection with the administration of the Plan or any claim for benefits arising under the Plan. Any decision or action of the Plan Administrator shall be conclusive and binding on all parties, including the Participants. The Plan Administrator shall also have the discretion and authority to adopt and revise rules and procedures relating to the Plan, to correct any defect or omission or reconcile any inconsistency in this Plan or any payment hereunder, and to make any other determinations that it believes necessary or advisable in the administration of the Plan.

SECTION 10. AMENDMENT AND TERMINATION OF PLAN

The Committee shall have the authority to amend the Plan at any time and from time to time. Any such amendments must be made by written instrument, and notice of such amendment shall be provided to Participants as soon as practical after adoption.

The Company reserves the right to terminate the Plan in any respect and at any time and may do so at any time pursuant to a written resolution of the Committee.

Notwithstanding anything else to the contrary set forth in the Plan, no amendment or termination of the Plan may adversely affect the rights of any Participant or Beneficiary in respect to an award determined or earned with respect to a Plan Year.

SECTION 11. MISCELLANEOUS

No Participant or other employee shall at any time have a right to be selected for participation in the Plan, despite having previously participated in the Plan or any other incentive or bonus plan of the Company or any of it affiliates.

The existence of this Plan, as in effect at any time or from time to time, or participation under the Plan, shall not be deemed to constitute a contract of employment between the Company or any Subsidiary and any employee or Participant, nor shall it constitute a right to remain in the employ of the Company or it's Subsidiary.

Any notice required or permitted under the Plan shall be sufficient if in writing and hand delivered, sent by first class, registered or certified mail, or by such other means as the Committee, in its sole discretion, may deem appropriate. Such notice shall be deemed as given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for registration or certification. Mailed notice to the Committee shall be directed to the Company's address, c/o the Plan Administrator. Mailed notice to a Participant or Beneficiary shall be directed to the individual's last known home address in the Participant's Employer's records.

Nothing contained in the Plan shall constitute a guaranty by any Employer or any other person or entity that the assets of such entity will be sufficient to pay any benefit hereunder.

Subject to the provisions of applicable law, no interest of any person or entity in any award, or any right to receive any distribution or other benefit under the Plan, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, or other alienation or encumbrance of any kind; nor may such interest in any award, or right to receive any distribution or any benefit under the Plan, be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including (but not limited to) claims for separate maintenance and claims in bankruptcy proceedings.

The Plan shall be construed and administered under the laws of the State of Iowa.

The Employer shall have the right to deduct, from amounts payable pursuant to the Plan or from amounts otherwise payable to the Participant (or payable to the beneficiary of the Participant, if the Participant is deceased), any taxes required by law to be withheld from such awards.

Nothing contained in this Plan shall be construed to prevent the Company, or any Subsidiary, from taking any corporate action which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No employee, beneficiary, or other person shall have any claim against the Company, or a Subsidiary, as a result of any such action.

Nothing express or implied in this Plan is intended or may be construed to give any person other than Participants and Beneficiaries any rights or remedies under this Plan.

A recipient of any payment under this Plan who is not a current employee of an Employer, shall have the obligation to inform the Company of his or her current address, or other location to which payments are to be sent. Neither the Company nor any Subsidiary shall have any liability to such recipient, or any other person, for any failure of such recipient, or person, to receive any payment if it sends such payment to the address provided by such recipient by first class mail, postage paid, or other comparable delivery method. Notwithstanding anything else in this Plan to the contrary, if a recipient of any payment cannot be located within 120 days following the date on which such payment is due after reasonable efforts by the Company or a Subsidiary, such payments and all future payments owing to

such recipient shall be forfeited without notice to such recipient. If, within two years (or such longer period as management, in its sole discretion, may determine), after the date as of which payment was forfeited (or, if later, is first due), the recipient, by written notice to the Company, requests that such payment and all future payments owing to such recipient be reinstated and provides satisfactory proof of their identity, such payments shall be promptly reinstated. To the extent the due date of any reinstated payment occurred prior to such reinstatement, such payment shall be made to the recipient (without any interest from its original due date) within 90 days after such reinstatement.

On behalf of the Human Resources Committee of the Board of Directors of the Company, this Amended and Restated Incentive Pay Plan has been executed this _____ day of _____, 2001.

By:

C. Daniel Gelatt, Jr., Chair

Amended and Restated as of January 1, 2001.

EXHIBIT 10.4

PRINCIPAL FINANCIAL GROUP, INC.
DIRECTORS STOCK PLAN

ARTICLE I.
PURPOSE

The purposes of the "PRINCIPAL FINANCIAL GROUP, INC. DIRECTORS STOCK PLAN" (the "Plan") are to enable the Company to attract, retain and motivate the best qualified non-employee directors and to enhance a long-term aligning of interests between the non-employee directors and stockholders of the Company by granting equity-based awards as provided herein.

ARTICLE II.
DEFINITIONS

2.1 Definitions. Whenever used herein, the following terms shall have the respective meanings set forth below:

a) "Agents Savings Plan" means The Principal Select Savings Plan for Individual Field.

b) "Award" means an Option, award of Restricted Stock or an award of Restricted Stock Units.

c) "Board" means the Board of Directors of the Company.

d) "Code" means the Internal Revenue Code of 1986, as amended.

e) "Common Stock" means the common stock of the Company, par value $0.01 per share.

f) "Committee" means the Human Resources Committee of the Board or such other committee of the Board as the Board shall designate from time to time, which committee shall consist of two or more Non-Employee Directors (within the meaning of Rule 16b-3 as promulgated under the Securities Exchange Act of 1934, as amended).

g) "Company" means Principal Financial Group, Inc., a Delaware corporation, and any successor thereto.

h) "Company Stock Plan" means any stock option plan, stock incentive plan, stock purchase plan and share ownership plans related to the Common Stock that are customary for publicly traded companies, and shall include the Plan, the Long-Term Plan, the Savings Plans, the Stock Incentive Plan and the Stock Purchase Plan.

i) "Domestic Partner" means any person qualifying to be treated as a domestic partner of a Participant under the applicable policies, if any, of the Company.

j) "Employees Savings Plan" means the Principal Select Savings Plan for Employees.

k) "Excess Plan" means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

l) "Fair Market Value" means, on any date, the price of the last trade, regular way, in the Common Stock on such date on the New York Stock Exchange or, if at the relevant time, the Common Stock is not listed to trade on the New York Stock Exchange, on such other recognized quotation system on which the trading prices of the Common Stock are then quoted (the "applicable exchange"). In the event that (i) there are no Common Stock transactions on the applicable exchange on any relevant date, Fair Market Value for such date shall mean the closing price on the immediately preceding date on which Common Stock transactions were so reported and (ii) the applicable exchange adopts a trading policy permitting trades after 5 P.M. Eastern Standard Time ("EST"), Fair Market Value shall mean the last trade, regular way, reported on or before 5 P.M. EST (or such earlier or later time as the Committee may establish from time to time) .

m) "Family Member" means, as to a Participant, any (i) child, stepchild, grandchild, parent, stepparent, grandparent, spouse, mother-in-law, father-in-law, son-in-law or daughter-in-law (including adoptive relationships), or Domestic Partner of such Participant, (ii) trusts for the exclusive benefit of one or more such persons and/or the Participant and (iii) other entity owned solely by one or more such persons and/or the Participant.

n) "Initial Public Offering" means the first underwritten offering of Common Stock to the public.

o) "Long-Term Plan" means the Principal Financial Group Long-Term Performance Plan.

p) "Option" means the right to purchase one share of Common Stock at a stated purchase price on the terms specified in Article V of the Plan. The Options are nonstatutory stock options not intended to qualify under Section 422 of the Code.

q) "Participant" means a member of the Board who is not an officer or employee of the Company or any entity controlling, controlled by, or under common control with the Company, and is not the beneficial owner of a controlling interest in the voting stock of the Company or of any entity that holds a controlling interest in the Company's voting stock.

r) "Period of Restriction" means the period specified by the Committee or established pursuant to the Plan during which a Restricted Stock or Restricted Stock Unit award is subject to forfeiture.

s) "Plan" means the Principal Financial Group, Inc. Directors Stock Plan, as set forth herein and as amended from time to time.

t) "Plan of Conversion" means the Plan of Conversion of Principal Mutual Holding Company.

u) "Restricted Stock" means an award of Common Stock made pursuant to Article VI that is forfeitable by the Participant until the completion of a specified period of future service as a member of the Board or until otherwise determined by the Committee or in accordance with the terms of the Plan.

v) "Restricted Stock Unit" means a contractual right awarded pursuant to Article VI that entitles the holder to receive shares of Common Stock (or the value thereof in cash) upon the completion of a specified period of future service as a member of the Board or at such other time or times determined by the Committee or in accordance with the terms of the Plan.

w) "Savings Plans" means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

x) "Stock Incentive Plan" means the Principal Financial Group, Inc. Stock Incentive Plan.

y) "Stock Purchase Plan" means the Principal Financial Group, Inc. Employee Stock Purchase Plan.

ARTICLE III.
ADMINISTRATION

3.1 Rules, Interpretation and Determinations. The Plan shall be administered by the Committee. The Committee shall have full authority to interpret and administer the Plan, to establish, amend and rescind rules for carrying out the Plan, to construe the respective option agreements and to make all other determinations and to take all other actions that it deems necessary or advisable for administering the Plan; provided that, no Committee member may participate in any decision with respect to such member's benefits or entitlements under the Plan, unless such decision applies generally to all non-employee directors. Each determination, interpretation or other action made or taken by the Committee shall be final and binding for all purposes and upon all persons.

3.2 Agents and Expenses. The Committee may appoint agents (who may be officers or employees of the Company) to assist in the administration of the Plan and may grant authority to such persons to execute agreements or other documents on its behalf. The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

3.3 Limitations in Plan of Conversion. Notwithstanding anything else contained in the Plan to the contrary, no action shall be taken, and no Award or distribution shall be made, under the Plan, which contains any term or condition that would violate any provision of the Plan of Conversion.

ARTICLE IV.
SHARES ISSUABLE

4.1 Number of Shares. Subject to the provisions of Section 4.3 hereof, the aggregate number of shares of Common Stock issuable under the Plan pursuant to Awards shall not exceed 500,000 shares of Common Stock. The number of shares granted as Awards hereunder shall count against (i) the limit of 6% of the number of shares of Common Stock outstanding immediately following the effective date of the Plan of Conversion that may be made issuable or distributable under all Company Stock Plans (including, without limitation, the Plan) other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan, and (ii) the operational guideline established pursuant to the Stock Incentive Plan limiting the maximum number of shares of Common Stock that may be awarded or issued within 18 months of the effective date of the Plan of Conversion to 40% of the limit set forth in subclause (i). Shares of Common Stock to be issued under the Plan may consist, in whole or in part, of treasury shares or authorized but unissued shares not reserved for any other purpose.

4.2 Canceled, Terminated, or Forfeited Awards. Any shares of Common Stock subject to an Award which for any reason is canceled or terminated or otherwise is settled without the issuance of unrestricted shares of Common Stock (including, but not limited to, shares tendered to exercise outstanding Options or shares tendered or withheld for taxes) shall again be available for Awards under the Plan.

4.3 Adjustment Due to Change in Capitalization. In the event of any Common Stock dividend or split, recapitalization (including, but not limited, to the payment of an extraordinary dividend to the stockholders of the Company), merger, consolidation, combination, spin-off, distribution of assets to stockholders (other than ordinary cash dividends), exchange of shares, or other similar corporate change, the aggregate number of shares of Common Stock available for grant under Section 4.1 or subject to outstanding Awards and the respective exercise prices, if any, applicable to outstanding Awards may be appropriately adjusted by the Committee, in its discretion, and the Committee's determination shall be conclusive.

ARTICLE V.
AWARDS AND TERMS OF OPTIONS

5.1 Automatic Grants of Options. Unless the Committee otherwise determines, each Participant who is then in office on (i) the six month anniversary of the Initial Public Offering or (ii) the date of each annual meeting of the Company's stockholders occurring after the six month anniversary of the Initial Public Offering shall be granted Options to purchase 2,000 shares of Common Stock. In addition, unless the Committee otherwise determines to make no grant or a different grant, each Participant first elected to the Board after the first grant of options pursuant to the preceding sentence shall automatically be granted Options to purchase a number of shares of Common Stock equal to the number of shares of Common Stock awarded to directors in office at the immediately preceding annual meeting, multiplied by a fraction, the numerator of which is the number of calendar months commencing after the Participant is elected to the Board and before the date the next annual meeting of stockholders is scheduled to occur and the denominator of which is the number of whole and partial calendar months from the last annual meeting to the scheduled date of the next following annual meeting.

5.2 Discretionary Grants of Options. The Committee shall also have the power to grant to any Participant or all Participants additional Options to purchase such number of shares of Common Stock, and on such terms and conditions, as it shall determine. The Committee may adopt different terms and conditions for each Option granted under this Section 5.2 to any Participant. Notwithstanding any other contrary provision in the Plan, (i) no Options shall be granted prior to the six month anniversary of the Initial Public Offering and (ii) during the 18 month period following the effective date of the Plan of Conversion, the number of shares granted, in the aggregate, pursuant to this Section 5.2 shall not exceed 20,000 shares of Common Stock.

5.3 Exercise Price. The exercise price for any share of Common Stock subject to an Option shall be not less than the Fair Market Value on the date such Option is granted.

5.4 Period of Exercisability. Unless otherwise determined by the Committee at or after grant or as otherwise required to satisfy the conditions set forth in Section 8.1 of the Plan of Conversion, the shares of Common Stock subject to Options granted under Section 5.1 shall become exercisable in four approximately equal installments on the three, six, nine and twelve month anniversaries of the date on which such Options were granted. Subject to compliance with the requirements of Section 8.1 of the Plan of Conversion, the Committee shall determine the date or dates at which Options granted under Section 5.2 shall become exercisable. Each Option shall, if not previously exercised in accordance with the terms of the Plan, in all events expire upon the tenth (10th) anniversary of the date of the grant thereof. If a Participant shall cease to provide services to the Company, such Participant or, in the case of death, the Participant's estate or beneficiary, may exercise any Option exercisable by the Participant at the date his or her service terminates until the earlier of (A) three (3) years from the date the Participant ceased to provide services to the Company and (B) the tenth (10th) anniversary of the date the Option was granted.

5.5 Procedure for Exercise. A Participant electing to exercise one or more Options shall give written notice to the Secretary of the Company of such election and of the number of shares of Common Stock the Participant has elected to purchase. No shares shall be delivered pursuant to any exercise of any Options unless arrangements satisfactory to the Committee have been made to assure full payment of the exercise price therefor. Without limiting the generality of the foregoing, payment of the exercise price may be made (i) in cash or its equivalent, (ii) by exchanging shares of Common Stock owned by the optionee (which are not the subject of any pledge or other security interest), (iii) through an arrangement with a broker approved by the Company whereby payment of the exercise price is accomplished with the proceeds of the sale of Common Stock or (iv) by any combination of the foregoing; provided that the combined value of all cash and cash equivalents paid and the Fair Market Value of any such Common Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such option exercise price. The Company may not make a loan to a Participant to facilitate such Participant's exercise of any of his or her Options.

ARTICLE VI.
RESTRICTED STOCK

6.1 Standard Grants of Restricted Stock Units. Unless otherwise determined by the Committee, there shall be awarded

(i) at the six month anniversary of the Initial Public Offering, to each Participant then in office that number of Restricted Stock Units equal to the product of 1,500, multiplied by a fraction, the numerator of which is the number of months remaining in the term of the class of directors in which the Participant serves (the "Participant's Term") and the denominator of which is the number of months remaining in the term of that class of directors having the longest remaining term at the date of grant (the "Longest Term"),

(ii) on the date of such Participant's election to the Board, to each Participant first elected to the Board after the six month anniversary of the Initial Public Offering that number of Restricted Stock Units equal to the product of 1,500, multiplied by a fraction, the numerator of which is the number of months remaining in the Participant's Term and the denominator of which is the number of months remaining in the Longest Term; and

(iii) on the effective date of the re-election of any Participant to continued membership on the Board, 1,500 Restricted Stock Units.

6.2 Discretionary Grants of Restricted Stock or Restricted Stock Units. Without limiting the generality of Section 6.1, the Committee may also grant Restricted Stock or Restricted Stock Units to any Participant or all Participants at such times, with respect to such number of shares of Common Stock and on such terms and conditions (including, in the case of any grant made in exchange for foregoing the receipt of fees otherwise payable in cash, a discount in the value of the Common Stock subject to the award to reflect the applicable restrictions on the Award) as the Committee shall determine. Notwithstanding any other contrary provision in the Plan, (i) no Restricted Stock or Restricted Stock Units shall be granted prior to the six month anniversary of the Initial Public Offering and (ii) during the 18 month period following the effective date of the Plan of Conversion, the number of shares granted, in the aggregate, pursuant to this Section 6.2 shall not exceed 15,000 shares of Common Stock.

6.3 Agreements; Restrictions on Certificates. Each grant of Restricted Stock or Restricted Stock Units shall be evidenced by a written agreement setting forth the terms of such Award. The Committee shall require that the stock certificates evidencing any Restricted Stock granted under Section 6.2 be held in the custody of the Secretary of the Company until the Period of Restriction lapses, and that, as a condition of any Restricted Stock award, the Participant shall have delivered a stock power, endorsed in blank, relating to the Common Stock covered by such award.

6.4 Restrictions on Transferability. Except as provided in Section 8.2, no shares of Restricted Stock or Restricted Stock Units may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the lapse of the Period of Restriction. Subject to compliance with the requirements of Section 8.1 of the Plan of Conversion, the Committee shall establish the Period of Restriction and the date or dates at which such Period of Restriction shall lapse, in whole or in part, with respect to any award made pursuant to Section 6.2. Unless otherwise determined by the Committee at the time of grant or to comply with the requirements of Section 8.1 of the Plan of Conversion, the Period of Restriction with respect to any award of Restricted Stock Units granted under Section 6.1 shall lapse in that number of installments determined by dividing (i) the number of whole and partial months occurring (x) from and after the date of grant and (y) on or prior to the date that the then current term of office of the Participant's class of directors expires by (ii) three, with any resulting period of less than three months being treated as the last installment, which ends at the date that such term of office expires. Notwithstanding the foregoing, unless otherwise determined by the Committee, the Period of Restriction applicable to any Restricted Stock or Restricted Stock Units shall not lapse, in whole or in part, at any time after the Participant has ceased to provide service to the Company.

6.5 Rights as a Shareholder. Unless otherwise determined by the Committee at the time of grant and subject to Section 6.6, Participants holding shares of Restricted Stock may exercise full voting rights and other rights as a shareholder with respect to those shares during the Period of Restriction. A Participant receiving Restricted Stock Units shall not have any rights as a shareholder prior to the actual issuance of such Common Stock, except that the Participant shall be entitled to payment of dividend equivalents on such rights equal to the dividends that would have been payable (or accumulated, pursuant to Section 6.6) had the corresponding equity rights been actual shares of Restricted Stock.

6.6 Dividends and Other Distributions. Unless otherwise determined by the Committee at the time of grant, Participants holding outstanding shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to those shares, provided that if any such dividends or distributions are paid in shares of Common Stock, such shares shall be subject to the same forfeiture restrictions and restrictions on transferability as apply to the Restricted Stock with respect to which they were paid. Notwithstanding the foregoing, the Committee may specify at the date of grant that any cash dividends on shares of Restricted Stock not be paid currently, but rather be credited to an account established for the Participant and invested in shares of Common Stock on the distribution date of such dividend. Any additional shares credited in respect of dividends shall become vested and nonforfeitable, if at all, on the same terms and conditions as are applicable in respect of the Restricted Stock with respect to which such dividends were payable.

6.7 Termination of Service. Unless otherwise determined by the Committee at or after the time of grant, in the event the service of the Participant as member of the Board shall terminate for any reason, any Restricted Stock or Restricted Stock Units awarded to such Participant as to which the Period of Restriction has not lapsed shall be forfeited.

ARTICLE VII.
TERMINATION, MODIFICATION AND AMENDMENT

The Board at any time may terminate the Plan, and, subject to Section 3.3 herein, from time to time may amend or modify the Plan; provided, however, that any amendment which would (i) increase the number of shares available for issuance under the Plan, (ii) lower the minimum exercise price at which an Option may be granted or (iii) extend the maximum term for Options granted hereunder shall be subject to the approval of the Company's shareholders. No amendment, modification, or termination of the Plan shall in any manner adversely affect any Option theretofore granted under the Plan, without the consent of the Participant.

ARTICLE VIII.
GENERAL PROVISIONS

8.1 No Right to Remain as a Director. The Plan shall not impose any obligations on the Company to retain any Participant as a Director nor shall it impose any obligation on the part of any Participant to remain in service to the Company.

8.2 Transferability. No Awards granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than in accordance with Section 8.3 below, by will or by the laws of descent and distribution; provided that the Committee may, in the appropriate award agreement or otherwise, permit transfers of Awards to Family Members (including, without limitation, transfers effected by a domestic relations order) subject to such terms and conditions as the Committee shall determine.

8.3 Beneficiary Designation. Each Participant under the Plan may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid or by whom any right under the Plan is to be exercised in case of the Participant's death. Each designation will revoke all prior designations by the same Participant with respect to all Awards previously granted, shall be in a form prescribed by the Committee, and will be effective only when received by the Committee in writing during the Participant's lifetime. In the absence of any such effective designation, benefits remaining unpaid at the Participant's death shall be paid to or exercised by the Participant's surviving spouse, if any, or otherwise to or by the Participant's estate. Except as otherwise expressly provided herein, nothing in this Plan is intended or may be construed to give any person other than Participants any rights or remedies under this Plan.

8.4 Rights as a Stockholder. No Participant nor any beneficiary thereof shall have any rights as a stockholder with respect to any shares of Common Stock covered by any Award until such person shall have become the holder of record of such shares.

8.5 Requirements of Law. The granting of Awards and the issuance of shares of Common Stock shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

8.6 Term of Plan. The Plan shall be effective upon its adoption by the Board. The Plan shall continue in effect, unless sooner terminated pursuant to Article VII above, until no more shares of Common Stock are available for issuance under the Plan.

8.7 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflict of laws.

8.8 No Constraint on Corporate Action. Except as provided in Article VII above, nothing contained in this Plan shall be construed to prevent the Company, or any affiliate, from taking any corporate action (including, but not limited to, the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets) which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No director, beneficiary, or other person shall have any claim against the Company, or any of its affiliates, as a result of any such action.

8.9 Indemnification. Each member of the Board and the Committee shall be indemnified and held harmless by the Company (or, if applicable, any affiliate of the Company) against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member of the Board or the Committee in connection with or resulting from any claim, action, suit, or proceeding to which such member may be made a party or in which such member may be involved by reason of any action taken or failure to act under the Plan (in the absence of bad faith) and against and from any and all amounts paid by such member in settlement thereof, with the Company's (or, if appropriate, an affiliate's) approval, or paid by such member in satisfaction of any judgment in any such action, suit, or proceeding against such member, provided that such member shall give the Company (or, if applicable, an affiliate) an opportunity, at its own expense, to handle and defend the same before such member undertakes to handle and defend it individually. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which any such person may be entitled under the Company's Certificate of Incorporation or By-Laws, by contract, as a matter of law, or otherwise.

8.10 Deferral of Payment. The Committee may, in the Award agreement or otherwise, permit a Participant to elect, upon such terms and conditions as the Committee may establish, to defer receipt of shares of Common Stock that would otherwise be issued in connection with an Award.

8.11 Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

On behalf of the Board of Directors of the Company, this Directors Stock Plan has been executed this day of June, 2001.

By:

C. Daniel Gelatt, Jr.

EXHIBIT 10.5

AMENDMENT NO. 5

THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

The Plan named above gives the Company the right to amend it at any time. According to that right, the Plan is amended as follows:

Effective July 1, 1998,

By striking the paragraph in the DEATH BENEFITS SECTION of Article V and substituting the following:

> If a Participant dies before his Retirement Date, his Vested Account shall be distributed to his Beneficiary in a single sum.

By striking subsections (a) and (b) of the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI and substituting the following:

> The optional forms of retirement benefit shall be the following: a single life annuity with a certain period of ten years; a single life annuity with installment refund; survivorship life annuity with installment refund and a survivorship percentage of 50; and a 120-month fixed period annuity. An election under this paragraph may be delayed until the Participant reaches his required beginning date under the Associated Plan
>
> The following optional forms of retirement benefit are also available: a single sum payment; an annual distribution equal to any fixed whole percentage, not less than 10% and not more than 13% of his Vested Account, as elected by the Participant. Such amount shall be payable annually until his vested Account is exhausted. Once elected, the percentage will not, change. An election under this paragraph may be delayed until the Participant reaches his required beginning date under the Associated Plan.
>
> A form of distribution for retirement benefits shall be available to a Participant only if the annual distribution under such form is at least equal to the quotient of the Participant's Vested Account as of the date distribution is to begin, divided by the life expectancy of the Participant, Beneficiary or joint and last survivor expectancy of the Participant and Beneficiary, as appropriate. If distribution is in a form other than a life annuity, the life expectancy of the Participant may be recalculated after the distribution begins, but no more frequently than annually. In the case of a Beneficiary who is not the Participant's spouse, life expectancy shall be calculated when benefits start and minimum payments for any 12-consecutive month period will be based on such life expectancy minus the number of whole years since the distribution first began. The life expectancy or joint and last survivor expectancy shall be computed by use of the return multiples contained in Section 1.72-9 of the regulations under the Code.

By striking the first sentence of the first paragraph in the ELECTION PROCEDURES SECTION of Article VI and substituting the following:

> The Participant shall make any election under this section in the form or manner provided for that purpose.

By striking subsections (a) and (b) in the ELECTION PROCEDURES SECTION of Article VI and substituting the following:

A Participant may elect his Beneficiary and may elect to have retirement benefits distributed under any of the optional forms of retirement benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of this article.

Effective January 1, 2000,

By striking the following from the Table of Contents:

Section 9.09 ---- Small Amounts

By striking the AGENT definition in the DEFINITIONS SECTION of Article I and substituting the following:

AGENT means an individual who holds a current DD 713 contract or any successor full-time contract with the Company and he is one of the following:

- an agent;
- a sales supervisor;
- a special marketing developer;
- a special brokerage developer;
- a special agency assistant; or
- an informal agency assistant.

By striking the AGENT'S CONTRACT, GENERAL MANAGER and MANAGEMENT ASSISTANT definitions from the DEFINITIONS SECTION of Article I.

By striking the second paragraph of the COMPENSATION definition in the DEFINITIONS SECTION of Article I and substituting the following:

"Earnings" in this definition means earnings as defined in the definition of Compensation or Earnings in the Savings Plan. In determining eligibility, Earnings will also include an Eligible Employee's compensation with a prior employer if it is earned within the calendar year in which he is hired or his contract first becomes effective.

By striking the ELIGIBLE EMPLOYEE definition in the DEFINITIONS SECTION of Article I and substituting the following:

ELIGIBLE EMPLOYEE means any Employee, Agent or Field Manager.

By adding the following to the DEFINITIONS SECTION of Article I:

FIELD MANAGER means:

(a) An individual who holds a current DD 713 contract or any successor full-time contract with the Company; and

(b) Such individual is in one of the following full-time field management positions:

- management assistant;
- management associate;
- manager;
- co-manager;
- assistant general manager;

- associate general manager;
- co-general manager;
- general manager;
- brokerage manager;
- brokerage sales manager; or
- brokerage director;

By striking the PAY PERIOD definition from the DEFINITIONS SECTION of Article I.

By striking the first sentence of the first paragraph in subsection (a) of the COMPANY CONTRIBUTIONS SECTION of Article Ill and substituting the following:

(a) Elective Deferral Contributions. The amount of each Elective Deferral Contribution for a Participant shall be equal to any percentage (not less than 6% nor more than 8%) of his Compensation for the pay period (as established by the Company) as elected in his salary deferral agreement.

By striking the second paragraph in subsection (a) of the COMPANY CONTRIBUTIONS SECTION of Article Ill and substituting the following:

The salary deferral agreement must be effective before the beginning of the pay period (as established by the Company) in which Elective Deferral Contributions are to start or stop.

By striking the first paragraph in subsection (b) of the COMPANY CONTRIBUTIONS SECTION of Article Ill and substituting the following:

(b) Matching Contributions. The amount of each Matching Contribution made by the Company for a Participant shall be equal to 50% of the Participant's Elective Deferral Contributions for the pay period (as established by the Company). The amount of Matching Contribution made by the Company for a Participant shall not exceed 3% of his Compensation for such pay period.

By striking the words "and the SMALL AMOUNTS SECTION of Article IX," from the DEATH BENEFITS SECTION of Article V.

By striking the first sentence of the DISABILITY BENEFITS SECTION of Article V and substituting the following:

If a Participant becomes totally and permanently disabled, as defined in the Savings Plan, his Vested Account shall be distributed to him in a single sum payment.

By adding the following sentence to the end of the first paragraph in Article VIII:

Benefits under this Plan will be paid only if the Plan Administrator decides, in his discretion, that the applicant is entitled to them.

By striking the SMALL AMOUNTS SECTION of Article IX in its entirety.

Effective January 1, 2001:

By striking the SAVINGS PLAN definition in the DEFINITIONS SECTION of Article I and substituting the following:

SAVINGS PLAN means the qualified plan(s) as follows:

The Principal Select Savings Plan for Employees The Principal Select Savings Plan for Individual Field

This amendment is made an integral part of the aforesaid Plan and is controlling over the terms of said Plan with respect to the particular items addressed expressly herein. All other provisions of the Plan remain unchanged and controlling.

Unless otherwise stated on any page of this amendment, eligibility for benefits and the amount of any benefits payable to or on behalf of an individual who is an Inactive Participant on the effective date(s) stated above, shall be determined according to the provisions of the aforesaid Plan as in effect on the day before he became an Inactive Participant.

Signing this amendment, the Company, as plan sponsor, has made the decision to adopt this plan amendment. The Company is acting in reliance on its own discretion and on the legal and tax advice of its own advisors, and not that of any member of the Principal Financial Group or any representative of a member company of the Principal Financial Group.

Signed this 28th day of December, 2000.

PRINCIPAL LIFE INSURANCE COMPANY

By /s/ LYNN M. GRAVES

2nd Vice President

Title

PLAN PAGES AFFECTED BY THIS AMENDMENT

1. Page 4 - Table of Contents, deleting Small Amounts section

2. Page 6 - Change definition of Agent and Compensation. Delete def of Agents Contract.

3. Page 7 - Delete def of General Manager; change eligible employee; add Field Manager; delete Pay Period.

4. Page 8 - Delete def of Management Assistant; change def of Savings Plan.

5. Page 12 - Change to elective deferral language and Company contributions.

6. Page 34 - Changes to death benefits section and disability benefits section.

7. Page 15 - Change to optional forms of distribution section.

8. Page 16 - Change to election procedures section.

9. Page 20 - Delete small amounts section

AMENDMENT NO. 4

THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 2000,

by striking the following:

Page 7
Page 12

and substituting the following:

Page 7
Page 12

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

Unless otherwise stated on any page of this amendment, eligibility for benefits and the amount of such benefits payable to or on behalf of an individual who is an inactive Participant on the effective date(s) stated above, shall be determined according to the provisions of the Plan as in effect on the day before he became an Inactive Participant.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tax implications.

Signed this 21st day of December 1999.

PRINCIPAL LIFE INSURANCE

By /s/ MAY F. JOHNSON

Vice President - Human Resources

Title

AMENDMENT NO. 3

THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 1998,

by striking the following:

Page 3	Page 8	Page 16
Page 6	Page 9	Page 20
Page 7	Page 14	

and substituting the following:

Page 3	Page 8	Page 16
Page 6	Page 9	Page 16a
Page 7	Page 14	Page 20

by adding the following:

Page 12a

Effective July 1, 1998,

by striking the following

Page 15

and substituting the following:

Page 15

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tax implications.

Signed this 1st day of October, 1998.

PRINCIPAL LIFE INSURANCE COMPANY	PRINCIPAL MUTUAL LIFE INSURANCE COMPANY
By /s/ MAY F. JOHNSON	By /s/ MAY F. JOHNSON
Vice President-Human Resources	Vice President-Human Resources
Title	Title

AMENDMENT NO. 2

THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 1996,

by striking the following:

Page 4
Page 14
Page 20

and substituting the following:

Page 4
Page 14
Page 20

Effective July 1, 1997,

by striking the following:

Page 12

and substituting the following:

Page 12

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tax implications.

Signed this 11th day of September, 1997.

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By /s/ MAY F. JOHNSON

Vice President - Human Resources

Title

AMENDMENT NO. 1

THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 1996,

by striking the following:

Page 8
Page 12
Page 13
Page 16

and substituting the following:

Page 8
Page 12
Page 13
Page 16

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tap implications.

Signed this 21st day of August 1996.

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By /s/ MAY F. JOHNSON

VP-HR

Title

THE PRINCIPAL

SELECT SAVINGS EXCESS PLAN

Nonqualified Retirement Plan 7.5A

Restated January 1, 1994

AMEND. NO. 3 PAGE DTD. l-l-98

TABLE OF CONTENTS

INTRODUCTION

ARTICLE I DEFINITIONS

ARTICLE II PARTICIPATION

Section 2.01 ---- Excess Plan Active Participant
Section 2.02 ---- Inactive Participant
Section 2.03 ---- Cessation of Participation

ARTICLE Ill CONTRIBUTIONS

Section 3.01 ---- Company Contributions
Section 3.02 ---- Allocation
Section 3.03 ---- Transfers

ARTICLE IV INVESTMENT OF CONTRIBUTIONS

ARTICLE V BENEFITS

Section 5.01 ---- Retirement Benefits
Section 5.02 ---- Death Benefits
Section 5.03 ---- Termination Benefits
Section 5.04 ---- Disability Benefits

ARTICLE VI DISTRIBUTION OF BENEFITS

Section 6.01 ---- Automatic Forms of Distribution
Section 6.02 ---- Optional Forms of Distribution
Section 6.03 ---- Election Procedures
Section 6.04 ---- Distributions Under Qualified Domestic Relations Orders

ARTICLE VII TERMINATION OF PLAN

ARTICLE VIII ADMINISTRATION OF PLAN

ARTICLE IX GENERAL PROVISIONS

Section 9.01 ---- Amendments
Section 9.02 ---- Provisions Relating to the Insurer and Other Parties
Section 9.03 ---- Employment Status
Section 9.04 ---- Rights to Plan Assets
Section 9.05 ---- Nonalienation of Benefits
Section 9.06 ---- Construction
Section 9.07 ---- Legal Actions
Section 9.08 ---- Word Usage
Section 9.09 ---- Small Amounts

PLAN EXECUTION

INTRODUCTION

The Company established the nonqualified Excess Plan on September 1, 1988, for a select group of management or highly compensated employees who, due to the amount of their compensation from the Company, are unable to fully participate in the Elective Deferral and Company Matching Contributions available to the other eligible participants in the Savings Plan. The Excess Plan has been designed as, and is intended to be, an unfunded plan for purposes of the Employee Retirement Income Security Act of 1974, as amended, and a nonqualified plan for purposes of ss. 401 of the Internal Revenue Code of 1986, as amended.

The Company is of the opinion that the Excess Plan should be changed. It believes that the best means to accomplish these changes is to completely restate the plan's terms, provisions and conditions. The restatement, effective January 1, 1994, is set forth in this document and is substituted in lieu of the prior document.

Any funds accumulated for purposes of providing benefits under this plan are fully available to satisfy the claims of the Company's creditors. Participants have no greater rights with regard to such fund than any other general creditor of the Company.

ARTICLE I

DEFINITIONS

ACCOUNT means, for a Participant, his share of the Investment Fund. Separate accounting records are kept for those parts of his Account that result from:

(a) Elective Deferral Contributions.

(b) Matching Contributions.

(c) Transfer Account Values

A Participant's Account shall be reduced by any distribution of his Account. A Participant's Account will participate in the earnings credited, expenses charged and any appreciation or depreciation of the Investment Fund. His Account is subject to any minimum guarantees applicable under the Group Contract or other investment arrangement.

AGENT means an individual who holds an unmodified Agent's Contract and who is not a General Manager or Management Assistant. On and after August 1, 1998, Agent also excludes an individual who is acting as a Brokerage General Agent.

AGENT'S CONTRACT means the DD713 contract between the Company and an Agent, General Manager or Management Assistant. The term Agent's Contract shall also include any successor full-time agent's contract substituted by the Company between the Company and such individual and any predecessor full-time agent's contract which the Company substituted with DO713 or any of its predecessors,

BENEFICIARY means the person or persons named by a Participant to receive any benefits under this Plan upon the Participant's death. For purposes of this Plan, Beneficiary is the same as designated by the Participant under the Savings Plan.

BENEFIT DATE means, for a Participant, the first day of the first period for which an amount of benefit is payable to him under this Plan. See Article V - BENEFITS.

BROKERAGE GENERAL AGENT means an individual under the standard compensation plan who holds an active DD714 Contract or any successor full-time contract with the Company.

CODE means the Internal Revenue Code of 1986, as amended.

COMPANY means Principal Life Insurance Company (Principal Mutual Life Insurance Company, before July 1, 1998).

COMPENSATION means the total earnings paid or made available to an Eligible Employee by the Company during any specified period.

"Earnings" in this definition means earnings as defined in the definition of Compensation or Earnings in the Savings Plan.

Earnings shall also include amounts which are contributed by the Company according to a salary reduction agreement and which are not currently includable in the Employee's gross income by reason of the application of Code Sections 125, 402(e)(3), 402(h)(l)(B) or 403(b), as well as Salary Deferral Contributions under this Plan.

For the purpose of Elective Deferral and Matching Contributions, earnings means only those amounts in excess of (1) or (2) below, whichever occurs first:

1) $150,000, as indexed, or

2) the Compensation determined by the maximum deferral contribution allowed under Code Section 402(g) to the Savings Plan divided by the maximum deferral percentage allowed by the outcome of the nondiscrimination test under the Savings Plan.

CONTRIBUTIONS means

Elective Deferral Contributions
Matching Contributions

as set out in Article III, unless the context clearly indicates otherwise.

ELECTIVE DEFERRAL CONTRIBUTIONS means contributions in accordance with a salary deferral agreement as set out in Article Ill, unless the context clearly indicates otherwise.

ELIGIBLE EMPLOYEE means any Employee, Agent, General Manager and Management Assistant.

EMPLOYEE means an individual as defined in the Savings Plan, and will include an individual employed by an adopting employer, as defined in the Savings Plan.

ENTRY DATE means the date an Eligible Employee first enters the Plan as an Active Participant. See Article II - PARTICIPATION,

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

EXCESS PLAN means The Principal Select Savings Excess Plan set forth in this document, including any later amendments to it.

FISCAL YEAR means the Company's taxable year. The last day of the Fiscal Year is December 31.

GENERAL MANAGER means an individual who is so designated by the Company and who holds an unmodified Agent's Contract. On and after August 1, 1998, General Manager excludes an individual who is acting as a Brokerage General Agent.

GROUP CONTRACT means the group annuity contract or contracts into which the Trustee enters with the Insurer for the investment of Contributions and the payment of benefits under this Plan. The term Group Contract as it is used in this Plan is deemed to include the plural unless the context clearly indicates otherwise.

Any funds accumulated under the Group Contract are available to the general creditors of the Company.

INSURER means Principal Life Insurance Company (Principal Mutual Life Insurance Company before July 1, 1998), and any other insurance company or companies named by the Trustee or Company.

INVESTMENT FUND means the total assets held for the purpose of providing benefits for Participants, These funds result from Contributions made under the Plan.

The investment Fund is not held for the exclusive benefit of Participants or their Beneficiaries.

MANAGEMENT ASSISTANT means an individual who is so designated by the Company and who holds an unmodified Agent's Contract. On and after August 1, 1998, Management Assistant excludes an individual who is acting as a Brokerage General Agent.

MATCHING CONTRIBUTIONS means matching contributions as set out in Article III, unless the context clearly indicates otherwise.

PARTICIPANT means an Eligible Employee who is actively participating in the Plan.

PAY PERIOD means

(a) For Agents, General Managers and Management Assistants, Pay Period as defined in The Principal Select Savings Plan for Agents, General Managers and Management Assistants.

(b) For all other Employees, Pay Period as defined in The Principal Select Savings Plan for Employees.

PLAN ADMINISTRATOR means the person or persons who administer the Plan. The Plan Administrator is the Company.

PLAN YEAR means a period beginning on a Yearly Date and ending on the day before the next Yearly Date.

REENTRY DATE means the date a former Participant reenters the Plan. See Article II - PARTICIPATION.

RETIREMENT DATE means the last day of the month in which a Participant's Retirement Date occurs under the Savings Plan. This date shall be on or after the earlier of (i) the date on which he ceases to be an Employee or (ii) the date he becomes totally and permanently disabled as defined under the Savings Plan.

SAVINGS PLAN means the qualified plan(s) as follows:

The Principal Select Savings Plan for Agents, General Managers and Management Assistants.

The Principal Select Savings Plan for Employees.

TRANSFER ACCOUNT VALUE means for a Participant, the account values, if any, which, after a period of five years, automatically transfer to this Plan from the Nonqualified Defined Contribution Plan for Designated Participants.

TRUST means an agreement of trust between the Company and Trustee established for the purpose of holding and distributing the Trust Fund under the provisions of the Excess Plan. The Trust may provide for the investment of all or any portion of the Trust Fund in the Group Contract or in any mutual fund arrangement available with the Insurer.

TRUST FUND means the total funds held under the Trust for the purpose of providing benefits for Participants. These funds result from Contributions made under the Excess Plan which are forwarded to the Trustee to be deposited in the Trust Fund.

TRUSTEE means the trustee or trustees under the Trust. The term Trustee as it is used in this Plan is deemed to include the plural unless the context clearly indicates otherwise.

VESTED ACCOUNT means the part of a Participant's Account in which he has a vested interest. The Participant's Vested Account is equal to his Account.

YEARLY DATE means September 1, 1988, and each following January 1.

ARTICLE II

PARTICIPATION

SECTION 2.01--EXCESS PLAN ACTIVE PARTICIPANT.

A person shall first become a Participant (begin active participation in the Excess Plan) on the earliest date on or after January 1, 1994, on which the person is an Eligible Employee and has met the eligibility requirement(s) set forth below. This date is his Entry Date.

(1) He is an active participant in the Savings Plan.

(2) He is deferring at least six percent (or the annually determined amount, if applicable) into the Savings Plan.

(3) He has the required earnings level as provided in the definition of Compensation in Article I.

Each Eligible Employee who was a Participant under the Plan on December 31, 1993, shall continue to be a Participant if he is still an Eligible Employee on January 1, 1994, and his Entry Date shall not change.

SECTION 2.02--INACTIVE PARTICIPANT.

An Active Participant shall become an Inactive Participant (discontinue accruing benefits under the Excess Plan) on the earliest of the following:

(a) The effective date of complete termination of the Excess Plan.

(b) The date of termination of his agent's contract DD713 (as such contract may be amended from time to time, or successor contracts to it).

(c) The date the Company sends written notice to the Participant of cancellation of his agent's contract DD713 (as such contract may be amended from time to time, or successor contracts to it).

(d) The date the Participant otherwise no longer meets the definition of Eligible Employee as set forth in the DEFINITIONS SECTION of Article I.

(e) The date the Participant no longer meets the terms and conditions set forth in the EXCESS PLAN ACTIVE PARTICIPANT SECTION of Article II.

(f) The date the Participant revokes his salary deferral agreement.

A former Participant shall again become a Participant (resume active participation in the Excess Plan) on the date he again performs an hour of service as an Eligible Employee. This date is his Reentry Date.

SECTION 2.03--CESSATION OF PARTICIPATION.

A Participant shall cease to be a Participant on the date he is no longer an Eligible Employee and the value of his Account is zero.

ARTICLE III

CONTRIBUTIONS

SECTION 3.01--COMPANY CONTRIBUTIONS.

Company Contributions for each Plan Year will be equal to the Company Contributions as described below.

(a) Elective Deferral Contributions. The amount of each Elective Deferral Contribution for a Participant shall be equal to any percentage (not less than 6% nor more than 8%) of his Compensation for the Pay Period as elected in his or her salary deferral agreement. This percentage will be adjusted at any time the elective deferral contribution percentage under the Savings Plan is increased or decreased. A person who is eligible to participate in the Excess Plan may file a salary deferral agreement with the Company. The salary deferral agreement to start Elective Deferral Contributions may be effective on a Participant's Entry Date (Reentry Date, if applicable) or any following date. The Participant shall make any change or terminate the salary deferral agreement by filing a new salary deferral agreement. A Participant's salary deferral agreement making a change may be effective on any date a salary deferral agreement to start Elective Deferral Contributions could be effective. A Participant's salary deferral agreement to stop Elective Deferral Contributions may be effective on any date.

The salary deferral agreement must be effective before the beginning of the Pay Period in which Elective Deferral Contributions are to start or stop.

Elective Deferral Contributions may include contributions the person would have made to the Savings Plan under its contribution formula but for the additional restrictions imposed by such plan to meet the qualification requirements of the Internal Revenue Code.

(b) Matching Contributions. The amount of each Matching Contribution made by the Company for a Participant shall be equal to 50% of the Participant's Elective Deferral Contributions for the Pay Period. The amount of Matching Contribution made by the Company for a Participant shall not exceed three percent of his Compensation for the Pay Period.

Matching Contributions may include contributions the Company would have made to the Savings Plan under its contribution formula but for the additional restrictions imposed by such plan to meet the qualification requirements of the Internal Revenue Code.

SECTION 3.02--ALLOCATION.

The following Contributions for each Plan Year shall be allocated to each Participant for whom such Contributions were made under the COMPANY CONTRIBUTIONS SECTION of Article III:

Elective Deferral Contributions
Matching Contributions

These Contributions shall be allocated when made and credited to the Participant's Account.

SECTION 3.03--TRANSFERS.

Each Plan Year, Contributions made on behalf of a Participant due to his participation in the Nonqualified Defined Contribution Plan for Designated Participants may be automatically transferred from such other nonqualified plan to this Plan. Any such transfer shall occur on or after the date which is five years after the contribution was made to such other nonqualified plan.

These contributions are allocated to the Participant upon transfer to this Plan. This is his Transfer Account Value.

ARTICLE IV

INVESTMENT OF CONTRIBUTIONS

Contributions made under the Excess Plan shall be deposited with the Trustee to be invested in the Trust Fund. Investment of such Contributions will be in accordance with the provisions of the Trust which will include, but not be limited to, investments under the provisions of any applicable group contract or any mutual fund I arrangement with the Insurer. The amounts in the Trust are subject to the claims of the Company's creditors, in the event of the Company's insolvency.

To the extent permitted by the Trust, the Participant shall direct the Contributions to any of the investments available under the Trust. If no investment direction is given, Contributions will be invested according to the provisions of any applicable group contract. (A change in investment direction or a transfer to) or from an account of a Participant may be made at any time, according to such terms and conditions as the Trustee may specify and subject to the provisions of the investments available under the Trust.

ARTICLE V

BENEFITS

SECTION 5.01--RETIREMENT BENEFITS.

On a Participant's Retirement Date, his Vested Account shall be distributed to him according to the distribution of benefits provisions of Article VI. I

SECTION 5.02--DEATH BENEFITS.

If a Participant dies before his Retirement Date, his Vested Account shall be distributed according to the distribution of benefits provisions of Article VI and the SMALL AMOUNTS SECTION of Article IX.

SECTION 5.03--TERMINATION BENEFITS.

A Participant will receive a distribution of his Vested Account if he ceases to be an Eligible Employee before his Retirement Date, provided he has not again become an Eligible Employee.

SECTION 5.04--DISABILITY BENEFITS.

If a Participant becomes totally and permanently disabled, as defined in the Associated Plan, his Vested Account shall be distributed to him in a single sum payment. Such payment shall be made after the Participant has been totally and permanently disabled for one year.

ARTICLE VI

DISTRIBUTION OF BENEFITS

SECTION 6.01--AUTOMATIC FORMS OF DISTRIBUTION.

The automatic form of benefit payable to or on behalf of a Participant is determined as follows:

(a) The automatic form of retirement benefit shall be a single sum payment.

(b) The automatic form of death, disability and termination benefit shall be a single sum payment to the Participant or his Beneficiary.

SECTION 6.02--OPTIONAL FORMS OF DISTRIBUTION.

An election of an optional form of benefit may be made by the Participant (see the ELECTION PROCEDURES SECTION of Article VI).

(a) The optional forms of retirement benefit shall be the following: single life annuity with a certain period of ten years; a single life annuity with installment refund; survivorship life annuity with installment refund and a survivorship percentage of 50; and fixed period annuities for any period of whole months which is not less than 120 and does not exceed the life expectancy of the Participant and the named Beneficiary.

The following optional forms of retirement benefit are also available: a single sum payment; an annual distribution equal to any fixed whole percentage, not less than 10% and not more than 13%, as elected by the Participant, of his Vested Account. Such amount shall be payable annually until his Vested Account is exhausted. Once elected, the percentage will not change, An election under this paragraph may be delayed until the Participant reaches his required beginning date under the Associated Plan.

If the Participant dies before beginning to receive a distribution of his retirement benefits, any form of distribution for a death benefit must meet the following limitations:

(b) If the Participant did not name an individual as his Beneficiary to receive any death benefit payable under the DEATH BENEFITS SECTION of Article V, such death benefit shall be distributed within five years of the Participant's death.

A form of distribution for retirement or death benefits shall be available to a Participant or Beneficiary only if the annual distribution under such form is at least equal to the quotient of the Participant's Vested Account as of the date distribution is to begin, divided by the life expectancy of the Participant, Beneficiary or joint and last survivor expectancy of the Participant and Beneficiary, as appropriate. If distribution is in a form other than a life annuity, the life expectancy of the Participant (and/or Beneficiary, if the spouse is the Beneficiary) may be recalculated after distribution begins, but no more frequently than annually. In the case of a Beneficiary who is not the Participant's spouse, life expectancy shall be calculated when benefits start and minimum payments for any 12-consecutive month period will be based on such life expectancy minus the number of whole years since the distribution first began. The life expectancy or joint and last survivor expectancy shall be computed by use of the return multiplies contained in Section 1.72-9 of the regulations under the Code.

SECTION 6.03--ELECTION PROCEDURES.

The Participant or Beneficiary shall make any election under this section in the form or manner provided for that purpose. The Plan Administrator may require such individual to complete any necessary documents as to the provisions to be made. Effective July 1, 1998, any election made as to a Participant whose Retirement Date occurs on and after January 1, 1999, must be made no later than the date one-year prior to his Retirement Date. In the absence of such election, benefits shall be paid in a single sum payment.

(a) Retirement Benefits. A Participant may elect his Beneficiary and may elect to have retirement benefits distributed under any of the optional forms of retirement benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

(b) Death Benefits. A Participant may elect his Beneficiary and may elect to have death benefits distributed under any of the optional forms of death benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

If the Participant has not elected an optional form of distribution for the death benefit payable to his Beneficiary, the Beneficiary may, for his own benefit, elect the form of distribution, in like manner as a Participant.

SECTION 6.04--DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS.

The Plan specifically permits distributions to an alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), at any time, irrespective of whether the Participant has attained his earliest retirement age, as defined in Code Section 414(p), under the Plan. A distribution to an alternate payee before the Participant's attainment of earliest retirement age, as defined in Code Section 414(p), is available only if:

(a) the order specifies distributions at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; and

(b) if the present value of the alternate payee's benefits under the Plan exceeds $5,000, and the order requires, the alternate payee consents to any distribution occurring before the Participant's attainment of earliest retirement age, as defined in Code Section 414(p).

Nothing in this section shall permit a Participant a right to receive a distribution at a time otherwise not permitted under the Plan nor shall it permit the alternate payee to receive a form of payment not permitted under the Plan.

The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator promptly shall notify the Participant and an alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the Participant and each alternate payee, in writing, of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations. The Plan Administrator may treat as qualified any domestic relations order entered before January 1, 1985, irrespective of whether it satisfies all the requirements described in Code Section 414(p).

If any portion of the Participant's Account is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, a separate accounting shall be made of the amount payable. If the Plan Administrator determines the order is a qualified domestic relations order within 18 months of the date amounts are first payable following receipt of the order, the payable amounts shall be distributed in accordance with the order, If the Plan Administrator does not make its determination of the qualified status of the order within the 4 8 month determination period, the payable amounts shall be distributed in the manner the Plan would distribute if the order did not exist and the order shall apply prospectively if the Plan Administrator later determines the order is a qualified domestic relations order.

The Plan shall make payments or distributions required under this section by separate benefit checks or other separate distribution to the alternate payee(s).

ARTICLE VII

TERMINATION OF PLAN

The Company expects to continue the Plan indefinitely but reserves the right to terminate the Plan at any time upon giving written notice to all parties concerned. Complete discontinuance of Contributions under the Plan constitutes termination of the Plan.

The Participant's Account shall continue to participate in the investment earnings credited, expenses charged and any appreciation or depreciation of the Investment Fund until the Account is distributed.

A Participant's Account may be distributed to the Participant after the effective date of the Plan termination.

Upon termination of the Plan, no more Eligible Employees shall become Participants and no more Contributions shall be made.

Amounts in this Plan shall not be paid to the Company at any time, except that, after the satisfaction of all liabilities under the Plan, any amounts remaining may be paid to the Company. The payment may not be made if it would contravene any provision of law.

ARTICLE VIII

ADMINISTRATION OF PLAN

The administrative provisions contained in Article VIII of the Savings Plan, except for Section 8.07, are hereby incorporated by reference into this Plan.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.01--AMENDMENTS.

By resolution of its Management Resources Committee, the Company may amend this Excess Plan at any time, including any remedial retroactive changes (within the specified period of time as may be determined by Internal Revenue Service regulations) to comply with the requirements of any law or regulation issued by any governmental agency to which the Company is subject.

Effective August 15, 1994, the Management Resources Committee is the Corporate Management Committee.

SECTION 9.02--PROVISIONS RELATING TO THE INSURER AND OTHER PARTIES.

The obligations of an Insurer shall be governed solely by the provisions of the Group Contract. The Insurer shall not be required to perform any act not provided in or contrary to the provisions of the Group Contract. See the CONSTRUCTION SECTION of this article.

Any issuer or distributor of investment contracts or securities is governed solely by the terms of its policies, written investment contract, prospectuses, security instruments, and any other written agreements entered into with the Trustee.

Such Insurer, issuer or distributor is not a party to the Excess Plan, nor bound in any way by the Excess Plan provisions. Such parties shall not be required to look to the terms of this Excess Plan, nor to determine whether the Company, the Plan Administrator or the Trustee have the authority to act in any particular manner or to make any contract or agreement.

Until notice of any amendment or termination of this Excess Plan or a change in Trustee has been received by the Insurer at its home office or an issuer or distributor at their principal address, they are and shall be fully protected in assuming that the Excess Plan has not been amended or terminated and in dealing with any party acting as Trustee according to the latest information which they have received at their home office or principal address.

SECTION 9.03.--EMPLOYMENT STATUS.

Nothing contained in this Excess Plan gives an Eligible Employee the right to be retained in the Company's employ or to interfere with the Company's right to discharge any Eligible Employee.

SECTION 9.04-RIGHTS TO PLAN ASSETS.

No Eligible Employee shall have any right to or interest in any assets of the Excess Plan upon termination of his employment or otherwise except as specifically provided under this Excess Plan, and then only to the extent of the benefits payable to such Eligible Employee in accordance with the Excess Plan provisions.

Any final payment or distribution to a Participant or his legal representative or to any Beneficiaries or spouse of such Participant under the Excess Plan provisions shall be in full satisfaction of all claims against the Excess Plan, the Plan Administrator, the Trustee, the Insurer, and the Company arising under or by virtue of the Excess Plan.

SECTION 9.05--NONALIENATION OF BENEFITS.

Benefits payable under the Excess Plan are not subject to the claims of any creditor of any Participant, Beneficiary or spouse. A Participant, Beneficiary or spouse does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, unless such order is determined by the Plan Administrator to be a qualified domestic relations order, as defined in ERISA Act Section 206(d), or any domestic relations order entered before January 1, 1985.

SECTION 9.06--CONSTRUCTION.

The validity of the Excess Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Company has its principal office. In case any provision of this Excess Plan is held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Excess Plan, and the Excess Plan shall be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Excess Plan and the terms of any contract or policy issued hereunder, the provisions of the Excess Plan control the operation and administration of the Excess Plan.

SECTION 9.07--LEGAL ACTIONS.

The Plan, the Plan Administrator and the Trustee are the necessary parties to any action or proceeding involving the assets held with respect to the Plan or administration of the Plan or Trust. No person employed by the Company, no Participant, former Participant or their Beneficiaries or any other person having or claiming to have an interest in the Plan is entitled to any notice of process. A final judgment entered in any such action or proceeding shall be binding and conclusive on all persons having or claiming to have an interest in the Plan.

SECTION 9.08--WORD USAGE.

The masculine gender, where used in this Plan, shall include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

SECTION 9.09--SMALL AMOUNTS.

If the Vested Account of a Participant does not exceed $5,000, the entire Vested Account shall be payable in a single sum as of the earliest of his Retirement Date, the date he dies, or the date he ceases to be an Employee. This is a small amounts payment. If a small amount is payable as of the date the Participant dies, the small amounts payment shall be made to the Participant's Beneficiary. If a small amount is payable while the Participant is living, the small amounts payment shall be made to the Participant. The small amounts payment is in full settlement of all benefits otherwise payable.

No other small amounts payments shall be made.

By executing this Plan, the Company acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the Plan's legal and tax implications.

Executed this 6th day of November, 1995.

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By: /s/ THOMAS J. GAARD

Sr. Vice President

Title

AMENDMENT TO THE PRINCIPAL SELECT SAVINGS EXCESS PLAN

AND

THE NONQUALIFIED DEFINED CONTRIBUTION PLAN FOR DESIGNATED PARTICIPANTS

(Hereinafter referred to as the "Plans")

The Plans named above give the Company the right to amend them at any time.

WHEREAS, in furtherance of the proposed demutualization of Principal Mutual Holding Company, the Board of Directors of Principal Mutual Holding Company, on March 3 1,2001, adopted a Plan of Conversion which contains certain provisions applicable to the above plans, collectively defined as the "Excess Plans" in such Plan of Conversion; and

WHEREAS, in order to reflect the provisions of Section 8.1 of the Plan of Conversion as they relate to the above Plans, the following definitions are adopted for purposes of this Amendment which relates specifically to provisions and limitations reflected in Section 8.1 of the Plan of Conversion and for no other purpose.

NOW THEREFORE, effective as of the effective date of the Plan of Conversion of Principal Mutual Holding Company, the Plans are hereby amended as follows:

By adding the following definitions, in correct alphabetical order, to Article I of such Plans:

"Agents Savings Plan" means The Principal Select Savings Plan for Individual Field.

"Common Stock" means the common stock, par value $0.01 per share, of the Principal Financial Group, Inc., a Delaware corporation, and any successor thereto.

"Company Stock Plan" means any stock option plan, stock incentive plan, stock purchase plan and share ownership plans related to the Common Stock that are customary for publicly traded companies, and shall include the Directors Stock Plan, the Long-Term Plan, the Plan, the Savings Plans, the Stock Incentive Plan and the Stock Purchase Plan.

"Directors Stock Plan" means the Principal Financial Group, Inc. Directors Stock Plan.

"Employees Savings Plan" means The Principal Select Savings Plan for Employees.

"Excess Plan" for purposes of the Amendment to the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants relating to the Plan of Conversion, adopted as of May 21,2001, means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

"Long-Term Plan" means the Principal Financial Group Long-Term Performance Plan.

"Plan of Conversion" means the Plan of Conversion of Principal Mutual Holding Company.

"Plans" for purposes of the Amendment to the Principal Select Savings Excess Plan and the Non- Qualified Defined Contribution Plan for Designated Participants relating to the Plan of Conversion, adopted as of May 21,2001, means the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants.

"Savings Plans" for purposes of the Amendment to the Principal Select Savings Excess Plan and the Non-Qualified Defined Contribution Plan for Designated Participants relating to the Plan of Conversion, adopted as of May 2 1,2001, means the Employees Savings Plan, the Agents Savings Plan and the Excess Plan.

"Stock Incentive Plan" means the Principal Financial Group, Inc. Stock Incentive Plan.

"Stock Purchase Plan" means the Principal Financial Group, Inc. Employee Stock Purchase Plan.

By adding a new Section 9.09 to Article IX, to read as follows:

Section 9.09. -- Limitations.

Notwithstanding anything else contained in the Plans to the contrary, no action shall be taken, and no award or distribution shall be made, under the Plans, which contains any term or condition that would violate any provision of the Plan of Conversion. To the extent that shares of Common Stock are made available for distribution hereunder, the number of such shares distributed hereunder shall count against (i) the limit of 6% of the number of shares of Corm-non Stock outstanding immediately following the effective date of the Plan of Conversion that may be made issuable or distributable under all Company Stock Plans (including, without limitation, the Plans) other than the Employees Savings Plan, the Agents Savings Plan and the Stock Purchase Plan, and (ii) the guideline set forth in the Stock Incentive Plan limiting the maximum number of shares of Common Stock that may be awarded or issued within 18 months of the effective date of the Plan of Conversion to 40% of the limit set forth in subclause (i).

By signing this amendment, the Company, as plan sponsor, has made the decision to adopt this plan amendment as of May 21, 2001.

Signed this 21 day of May , 2001.

PRINCIPAL LIFE INSURANCE COMPANY

By: /s/ Jim DeVries

Title: Vice President -- HR

EXHIBIT 10.6

AMENDMENT NO. 3

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR EMPLOYEES

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as follows:

Effective December 31, 1998:

By striking the definition of ASSOCIATED PLAN in the DEFINITIONS SECTION of Article I and substituting the following:

> ASSOCIATED PLAN means The Principal Pension Plan.

Effective January 1, 1999:

By striking the last two sentences of the first paragraph in the DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS SECTION of Article VI and substituting the following:

> Nothing in this section shall permit a Participant a right to receive a distribution at a time otherwise not permitted under the Plan. Distribution to an alternate payee may be made in a single sum equal to the present value (as determined by actuarial valuations) of the benefit payable under the terms of the Qualified Domestic Relations Order. This single sum payment must be requested within 60 days after the date the Qualified Domestic Relations Order is approved by the Employer. With the exception of this single sum benefit, nothing in this section shall permit the alternate payee to receive any other form of payment not permitted under the Plan. in no event may a single sum distribution be made to an alternate payee after the date the Participant ceases to be an Employee due to retirement.

Effective March 1, 1999:

By striking the definition of ELIGIBLE EMPLOYEE in the DEFINITIONS SECTION of Article I and substituting the following:

> ELIGIBLE EMPLOYEE means any Employee of the Employer (including individuals who were active participants under the Principal Health Care, Inc. Pension Plan on April 30, 1998) who is invited to participate. in the Plan and who represents a select group of highly-compensated or management Employees.

Effective January 1, 2000:

By striking entirely from the ACCRUED BENEFIT SECTION of Article IV the words "However, Accrued Benefit is modified as follows:" and the immediately following paragraph that begins with the words "The actual dollar amount...".

Effective January 1, 2001:

By adding the following as the last sentence in the first paragraph in the ADMINISTRATION SECTION of Article VIII:

Benefits under this Plan will be paid only if the Plan Administrator decides, in his discretion, that the applicant is entitled to them.

This amendment is made an integral part of the aforesaid Plan and is controlling over the terms of said Plan with respect to the particular items addressed expressly herein. All other provisions of the Plan remain unchanged and controlling.

Unless otherwise stated on any page of this amendment, eligibility for benefits and the amount of any benefits payable to or on behalf of an individual who is an Inactive Participant on the effective date(s) stated above, shall be determined according to the provisions of the aforesaid Plan as in effect on the day before he became an Inactive Participant.

Signing this amendment, the Employer, as plan sponsor, has made the decision to adopt this plan amendment. The Employer is acting in reliance on its own discretion and on the legal and tax advice of its own advisors, and not that of any member of the Principal Financial Group or any representative of a member company of the Principal Financial Group.

Signed this 28th day of December, 2000.

PRINCIPAL LIFE INSURANCE COMPANY

By /s/ LYNN M GRAVES

2ND VICE PRESIDENT

Title

PLAN PAGES AFFECTED BY THIS AMENDMENT

Page 12- removal of accrued benefit modification.

Page 17 - change in QDRO language, 1st paragraph

Page 19 - change to Section 8.01, 1st paragraph

AMENDMENT NO. 2

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR EMPLOYEES

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 1998,

by striking the following:

Page 3	Page 16
Page 4	Page 17
Page 14	Page 24
Page 15	

and substituting the following:

Page 3	Page 16
Page 4	Page 17
Page 14	Page 17a
Page 15	Page 24

Effective July 3, 1998,

by striking the following:

Page 7	Page 19

and substituting the following:

Page 7	Page 19

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tax implications.

Signed this 1st day of October, 1998.

PRINCIPAL LIFE INSURANCE COMPANY	PRINCIPAL MUTUAL LIFE INSURANCE COMPANY
By /s/ MAX F. JOHNSON	By /s/ MAX F. JOHNSON
Vice President - Human Resources	Vice President - Human Resources
Title	Title

AMENDMENT NO. 1

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN FOR EMPLOYEES

The Plan named above gives the Employer the right to amend it at any time. According to that right, the Plan is amended as provided below:

Effective January 1, 1997,

by striking the following:

Page 3
Page 12

and substituting the following:

Page 3
Page 12

The provisions and conditions set forth on any page of this amendment are a part of the Plan as fully as if recited over the signature(s) below.

By signing this amendment, the Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the amendment's legal and tax implications.

Signed this 11th day of September, 1997.

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By /s/ MAX F. JOHNSON

Vice President - Human Resources

Title

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

FOR EMPLOYEES

Restated January I, 1996

AMEND. NO. 2 PAGE DTD. 1-1-98

TABLE OF CONTENTS

INTRODUCTION

ARTICLE I FORMAT AND DEFINITIONS

Section 1.01 ---- Format
Section 1.02 ---- Definitions

ARTICLE II PARTICIPATION

Section 2.01 ---- Active Participant
Section 2.02 ---- Inactive Participant
Section 2.03 ---- Cessation of Participation-

ARTICLE III CONTRIBUTIONS

Section 3.01 ---- Employer Contributions
Section 3.02 ---- Investment of Contributions

ARTICLE IV RETIREMENT BENEFITS

Section 4.01 ---- Accrued Benefit
Section 4.02 ---- Amount of Benefit at Retirement

ARTICLE V OTHER BENEFITS

Section 5.01 ---- Death Benefits
Section 5.02 ---- Vested Benefits
Section 5.03 ---- Cost of Living Adjustment
Section 5.04 ---- Disability Benefits

ARTICLE VI WHEN BENEFITS START AND DISTRIBUTION OF BENEFITS

Section 6.01 ---- When Benefits Start
Section 6.02 ---- Automatic Forms of Distribution
Section 6.03 ---- Optional Forms of Distribution and Distribution Requirements
Section 6.04 ---- Distributions Under Qualified Domestic Relations Orders

ARTICLE VII TERMINATION OF PLAN

AMEND. NO. 2 PAGE DTD. l-l-98

ARTICLE VIII ADMINISTRATION OF PLAN

Section 8.01 ---- Administration
Section 8.02 ---- Benefit and Pension Committee
Section 8.03 ---- Benefit Plan Investment Committee
Section 8.04 ---- Records
Section 8.05 ---- Information Available
Section 8.06 ---- Claim and Appeal Procedures
Section 8.07 ---- Delegation of Authority

ARTICLE IX GENERAL PROVISIONS

Section 9.01 ---- Amendments
Section 9.02 ---- Provisions Relating to the Insurer and Other Parties
Section 9.03 ---- Employment Status
Section 9.04 ---- Rights to Plan Assets
Section 9.05 ---- Beneficiary
Section 9.06 ---- Nonalienation of Benefits
Section 9.07 ---- Construction
Section 9.08 ---- Legal Actions
Section 9.09 ---- Word Usage
Section 9.10 ---- Small Amounts

PLAN EXECUTION

INTRODUCTION

The Employer previously established a nonqualified deferred compensation plan on January 1, 1982. The plan has been designed as, and is intended to be, an unfunded plan for purposes of the Employee Retirement Income Security Act of 1974, as amended, and a nonqualified plan under the internal Revenue Code of 1986, including any later amendments to the Code. The plan is designed to provide benefits for a select group of highly compensated or management employees.

The Employer is of the opinion that the plan should be changed. It believes that the best means to accomplish these changes is to completely restate the plan's terms, provisions and conditions. The restatement, effective January 1, 1996, is set forth in this document and is substituted in lieu of the prior document.

Any funds accumulated for purposes of providing benefits under this plan are fully available to satisfy the claims of the Employer's creditors. Participants have no greater rights with regard to such fund than any other general creditor of the Employer.

ARTICLE I

FORMAT AND DEFINITIONS

SECTION 1.Ol--FORMAT.

Words and phrases defined in the DEFINITIONS SECTION of Article I shall have that defined meaning when used in this Plan, unless the context clearly indicates otherwise.

These words and phrases will have an initial capital letter to aid in identifying them as defined terms.

SECTION 1.02--DEFINITIONS.

ACCRUAL SERVICE means, on any date for a Participant, his accrual service on such date under the Associated Plan.

ACCRUED BENEFIT means the amount of monthly retirement benefit on the Normal Form accrued by an Active Participant under this Plan as of any date. See the ACCRUED BENEFIT SECTION of Article IV.

ACCRUED BENEFIT ADJUSTMENT means an adjustment which shall be applied to determine a Participant's benefit, as defined under the Associated Plan.

ACTIVE PARTICIPANT means an Eligible Employee who is actively participating in the Plan according to the provisions in the ACTIVE PARTICIPANT SECTION of Article II.

ACTUARIAL EQUIVALENT means, for a benefit payable on an optional form, that the value of such benefit is actuarially equivalent to the benefit payable on the Normal Form. The amount of each payment under an optional form shall be determined pursuant to the definition of actuarial equivalent in the Associated Plan.

ADJUSTED COMPENSATION BENEFIT means an amount of monthly retirement benefit, determined according to Section 4.01.

ANNUITY STARTING DATE means, for a Participant, the first day of the first period for which an amount is payable as an annuity or any other form.

ASSOCIATED PLAN means The Principal Pension Plan For Employees.

AVERAGE COMPENSATION means, on any given date, an Employee's average compensation under the Associated Plan.

BENEFICIARY means the person or persons named by a Participant to receive any benefits under this Plan upon the Participant's death. See the BENEFICIARY SECTION of Article IX.

CLAIMANT means any person who has made a claim for benefits under this Plan. See the CLAIM AND APPEAL PROCEDURES SECTION of Article VIII.

CODE means the internal Revenue Code of 1986, as amended.

COMPENSATION means compensation as defined under the Associated Plan. However, the $200,000 limit prior to January 1, 1994, and the $150,000 limit on and after January 1, 1994, (as adjusted) on Compensation specified in such definition shall not apply for purposes of determining a Participant's Supplemental Benefit under this Plan.

CONTINGENT ANNUITANT means an individual named by the Participant to receive a lifetime benefit after the Participant's death according to a survivorship life annuity form of distribution.

CONTRIBUTIONS means Employer Contributions as set out in Article Ill.

EARLY RETIREMENT DATE means the Participant's early retirement date under the Associated Plan.

ELIGIBLE EMPLOYEE means any Employee of the Employer who is invited to participate in the Plan and who represents a select group of highly-compensated or management employees,

EMPLOYEE means an individual who is employed by the Employer.

EMPLOYER means Principal Life Insurance Company,

EMPLOYER CONTRIBUTIONS means contributions made by the Employer to fund this Plan. See the EMPLOYER CONTRIBUTIONS SECTION of Article III.

ENTRY DATE means the date an Employee first enters the Plan as an Active Participant. See the ACTIVE PARTICIPANT SECTION of Article II.

EXCESS BENEFIT means an amount of monthly retirement benefit, determined according to Section 4.01.

FISCAL YEAR means the Employer's taxable year. The last day of the Fiscal Year is December 31.

GROUP CONTRACT means the group annuity contract or contracts into which the Trustee enters with the Insurer for the investment of Contributions and the payment of benefits under this Plan. The term Group Contract as it is used in this Plan is deemed to include the plural unless the context clearly indicates otherwise.

Any funds accumulated under the Group Contract are available to the general creditors of the Employer.

INACTIVE PARTICIPANT means a former Active Participant who has an Accrued Benefit. See the INACTIVE PARTICIPANT SECTION of Article II.

INSURER means Principal Life Insurance Company and any other insurance company or companies named by the Trustee.

INTEGRATION LEVEL means a Participant's integration level as defined under the Associated Plan.

LATE RETIREMENT DATE means the late retirement date under the Associated Plan.

NORMAL FORM means the Normal Form under the Associated Plan.

NORMAL RETIREMENT AGE means a Participant's normal retirement age under the Associated Plan.

NORMAL RETIREMENT DATE means a Participant's normal retirement date under the Associated Plan.

PARTICIPANT means either an Active Participant or an Inactive Participant.

PLAN means the deferred compensation plan of the Employer set forth in this document, including any later amendments to it.

PLAN ADMINISTRATOR means the person or persons who administer the Plan.

The Plan Administrator is the Employer.

PLAN YEAR means a period beginning on a Yearly Date and ending on the day before the next Yearly Date.

PRE-89 ACCRUED BENEFIT ADJUSTMENT means an adjustment which shall be applied to determine a Participant's benefit, as defined under the Associated Plan.

PRESENT VALUE means the current value of a benefit payable on a specified form and on a specified date. Present Value is determined pursuant to the definition of present value under the Associated Plan.

REENTRY DATE means the date a former Active Participant reenters the Plan. See the ACTIVE PARTICIPANT SECTION of Article II.

RETIREMENT DATE means the date a retirement benefit will begin and is a Participant's Early, Normal or Late Retirement Date, as the case may be.

SOCIAL SECURITY BENEFIT means the monthly payment of primary insurance benefits determined for a Participant.

The benefits shall be determined by applying a salary scale, projected backwards, to the Participant's pay as of any date of determination. The salary scale used shall be the actual change in the average wages from year to year as determined by the Social Security Administration.

SUPPLEMENTAL BENEFIT means an amount of monthly retirement benefit, determined according to Section 4.01.

TRUST means an agreement of trust between the Employer and Trustee established for the purpose of holding and distributing the Trust Fund under the provisions of the Plan. The Trust wilt provide for the investment of all or any portion of the Trust Fund in the Group Contract.

TRUST FUND means the total funds held under the Trust for the purpose of providing benefits for Participants. These funds result from Contributions made under the Plan which are forwarded to the Trustee to be deposited in the Trust Fund as provided in the INVESTMENT OF CONTRIBUTIONS SECTION of Article III. The Trust Fund shall be valued annually at current fair market value on the date used for

computing plan costs for minimum funding purposes and, at the discretion of the Trustee, may be valued more frequently. The valuation shall take into consideration investment earnings credited, expenses charged, payments made and changes in the value of the assets held in the Trust Fund.

TRUSTEE means the trustee or trustees under the Trust. The term Trustee as it is used in this Plan is deemed to include the plural unless the context clearly indicates otherwise.

YEARLY DATE means January 1, 1982, and the same day of each following year.

ARTICLE II

PARTICIPATION

SECTION 2.01--ACTIVE PARTICIPANT.

(a) An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest date on or after January 1, 1996, on which he is an Eligible Employee. This date is his Entry Date.

Each Employee who was an Active Participant under the Plan on December 31, 1995, shall continue to be an Active Participant if he is still an Eligible Employee on January 1, 1996, and his Entry Date shall not change.

(b) An Inactive Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an hour of service as an Eligible Employee. This date is his Reentry Date.

Upon again becoming an Active Participant, he shall cease to be an Inactive Participant.

(c) A former Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an hour of service as an Eligible Employee. This date is his Reentry Date.

SECTION 2.02--INACTIVE PARTICIPANT.

An Active Participant shall become an Inactive Participant (stop accruing benefits under the Plan) on the earliest of the following:

(a) The date on which he ceases to be an Eligible Employee (on his Retirement Date if he ceases to be an Eligible Employee within one month of his Retirement Date).

(b) The effective date of complete termination of the Plan.

An Employee or former Employee who was an Inactive Participant under the Plan on December 31, 1995, shall continue to be an Inactive Participant on January 1, 1996. Eligibility for any benefits payable to him or on his behalf and the amount of the benefits shall be determined according to the provisions of the prior document, unless otherwise stated in this document.

SECTION 2.03--CESSATION OF PARTICIPATION.

A Participant, whether active or inactive, shall cease to be a Participant on the earlier of the following:

(a) The date of his death.

(b) The date he receives a distribution of his entire benefit under the Plan.

ARTICLE III

CONTRIBUTIONS

SECTION 3.01--EMPLOYER CONTRIBUTIONS.

The amount and time of Employer Contributions shall be determined based on actuarial valuations and mendations as to the amounts required to fund benefits under this Plan.

SECTION 3.02--INVESTMENT OF CONTRIBUTIONS.

All Contributions are forwarded by the Trustee to. be deposited in the Trust Fund. Investment of Contributions is governed by the provisions of the Trust, Group Contract and any other funding arrangement in which the Trust is or may be invested.

Plan assets are not held for the exclusive benefit of Participants or their Beneficiaries.

ARTICLE IV

RETIREMENT BENEFITS

SECTION 4.01--ACCRUED BENEFIT.

An Active Participant's monthly Accrued Benefit as of any date will be equal to the greatest of (a) reduced by (c), or (b) reduced by (c) below:

(a) Supplemental Benefit: For an Active Participant whose Average Monthly Compensation is at least 125% of the current salary minimum used in the definition of a highly compensated employee under an 414(q) of the Code, an amount equal to the sum of (1) and (2) below reduced by (3) below:

(1) An amount equal to (i) 70.5% of his Average Compensation, multiplied by (ii) his Pre-89 Accrued Benefit Adjustment.

(2) An amount equal to (i) 65% of his Average Compensation, multiplied by (ii) his Accrued Benefit Adjustment.

(3) An amount equal to (i) his Social Security Benefit multiplied by (ii) the sum of his Pre-89 Accrued Benefit Adjustment and his Accrued Benefit Adjustment.

(b) Excess Benefit: For any Active Participant, an amount equal to his accrued benefit under the Associated Plan, determined as if the limits of Section 415 and 401(a)(17) of the Code were not operative.

(c) The normal form accrued benefit expected to be paid to the Participant under the Associated Plan at Retirement Date.

However, Accrued Benefit is modified as follows:

The actual dollar amount of a Participant's Accrued Benefit at retirement may vary depending on his Average Compensation as defined under the Associated Plan on any given date.

SECTION 4.02--AMOUNT OF BENEFIT AT RETIREMENT.

An Active Participant's retirement benefit on his Retirement Date shall be equal to his Accrued Benefit on such date.

An Active Participant's retirement benefit on his Early or Late Retirement Date for (a), (b) and (c) in Section 4.01 above shall be equal to his Accrued Benefit on such specified date, multiplied by the early or late retirement factor derived from the table in Section 4.03.of the Associated Plan.

An Active Participant's retirement benefit on the Normal Form shall not be less than the greatest amount of benefit that would have been provided for him had he retired on an earlier Retirement Date.

The Participant's retirement benefits shall be distributed to the Participant according to the distribution of benefits provisions of Article VI. The amount of payment under any form (other than the Normal Form) shall be determined as provided under the OPTIONAL FORMS OF DISTRIBUTION AND DISTRIBUTION REQUIREMENTS SECTION of Article VI.

AMEND. NO. 2 PAGE DTD. 1-l-98

ARTICLE V

OTHER BENEFITS

SECTION 5.01--DEATH BENEFITS.

If a Participant dies before his Normal Retirement Date, monthly payments shall be payable to the Participant's spouse in an amount equal to the preretirement survivor annuity which would have been determined under the Associated Plan, based on his Accrued Benefit under this Plan. The distribution of death benefits shall be subject to the distribution of benefits provisions of Article VI.

Any death benefit after Normal Retirement Date will be determined by the form of retirement benefit in effect on such date.

SECTION 5.02--VESTED BENEFITS.

A Participant who becomes an Inactive Participant before retirement or death will be entitled to a deferred monthly retirement benefit on the Normal Form to begin on his Retirement Date. The deferred retirement benefit will be equal to the Participant's Accrued Benefit from this Plan on the day before he became an Inactive Participant.

The amount of payment under any form (other than the Normal Form) shall be determined as provided under the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

If the Participant dies before his Normal Retirement Date, death benefits shall be distributed according to the provisions of the DEATH BENEFITS SECTION of Article V.

SECTION 5.03--COST OF LIVING ADJUSTMENT.

For purposes of this Section, the following terms are defined:

PAYEE means

(a) A Participant whose Retirement Date has occurred.

(b) A spouse who is entitled to payments under the DEATH BENEFITS SECTION of this Article.

(c) A Contingent Annuitant who is entitled to payments under a survivorship optional form on account of the death of the Participant.

(d) A Beneficiary who is entitled to payments under a certain and life optional form on account of the death of the Participant.

PRICE INDEX means as of each January 1 the average of the Consumer Price Index (U.S. city average for all urban consumers, all items) for the immediately preceding calendar year, as published by the United States Department of Labor.

ADJUSTMENT DATE means each March 1.

ADJUSTMENT FACTOR means a number based on the quotient of (a) divided by (b) as shown in the following table:

(a) The Price Index as of such Adjustment Date.

(b) The Price Index as of the last previous Adjustment Date.

Quotient	Adjustment Factor
Less than 1	1
1 to 1.10	1 plus 75% of the excess
1.l0 or greater	1.075

If the Adjustment Factor on any Adjustment Date is between 1 and 1.01, no adjustment will be made on that Adjustment Date. However, on the next following Adjustment Date the Adjustment Factor will be the product of the Adjustment Factor normally determined for the current Adjustment Date and the immediately preceding Adjustment Date.

As of each Adjustment Date, the amount of the monthly payment derived from his Accrued Benefit shall be changed to the amount determined by multiplying such payment by the Adjustment Factor as of such Adjustment Date subject to the following provisions:

(a) No decrease shall become effective which would reduce the monthly payment for a Payee to an amount which would be less than the amount (called the Floor) he would have received had the provisions of this Section never been in effect except that a new Floor shall be created (1) at the Participant's Normal Retirement Date or (2) on the date of such Participant's death before his Normal Retirement Date.

(b) A Participant or a Participant's spouse will have the amount of any increase in the amount of monthly payment for him on his first Adjustment Date multiplied by the ratio of (1) to (2) below:

(1) The number of complete months he has been a Payee prior to such Adjustment Date.

(2) 12.

SECTION 5.04--DISABILITY BENEFITS.

An Active Participant shall continue to accrue benefits under the Plan if he becomes Totally and Permanently Disabled as described in the Associated Plan before his Retirement Date (Normal Retirement Date, if earlier). An Active Participant who becomes Totally and Permanently Disabled on or after September 1, 1990, shall not continue to accrue benefits unless such disability (1) continues uninterruptedly for at least one year and (2) he will have completed 10 or more years of Vesting Service under the Associated Plan at the end of that one- year period.

Accrual Service for a Participant who is continuing to accrue benefits shall be credited as one day of service for each day (without regard to the one year. limitation) he is Totally and Permanently Disabled to the extent it has not already been credited.

AMEND. NO. 2 PAGE DTD. 1-1-98

For purposes of determining Vesting Service under the Associated Plan, Severance from Service Date shall not occur during any period when he is Totally and Permanently Disabled.

Compensation for a Participant who is continuing to accrue benefits shall be deemed to be the greater of (1) his Compensation for the calendar year prior to the calendar year in which he became Totally and Permanently Disabled subject to the adjustment described in the COST OF LIVING ADJUSTMENT SECTION of Article V, or (2) his compensation for the current calendar year.

ARTICLE VI

WHEN BENEFITS START AND DISTRIBUTION OF BENEFITS

Any benefit distributed according to the provisions of this article will be paid from the general assets of the Employer. Participants have no greater rights with regard to such benefit than any other general creditor of the Employer.

SECTION 6.01--WHEN BENEFITS START.

Benefits under the Plan begin when a Participant starts benefits under the Associated Plan.

SECTION 6.02--AUTOMATIC FORMS OF DISTRIBUTION.

The automatic form of retirement benefit payable to or on behalf of a Participant shall be the same as the form of benefit being paid under the Associated Plan.

SECTION 6.03--OPTIONAL FORMS OF DISTRIBUTION AND DISTRIBUTION REQUIREMENTS.

The optional forms of retirement benefit shall be the optional forms available under the Associated Plan. If an optional form is chosen under the Associated Plan, that optional form will also be in effect under this Plan. The benefit payable on any optional annuity form available (other than the Normal Form) shall be the Actuarial Equivalent of the benefit that would otherwise be payable on the Normal Form.

SECTION 6.04--DISTRIBUTIONS UNDER QUALIFIED DOMESTIC RELATIONS ORDERS.

The Plan specifically permits distributions to an alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), at any time, irrespective of whether the Participant has attained his earliest retirement age, as defined in Code Section 414(p), under the Plan. A distribution to an alternate payee before the Participant's attainment of earliest retirement age, as defined in Code Section 414(p), is available only if:

(a) the order specifies distributions at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; and

(b) if the present value of the alternate payee's benefits under the Plan exceeds $5,000, and the order requires, the alternate payee consents to any distribution occurring before the Participant's attainment of earliest retirement age, as defined in Code Section 414(p).

Nothing in this section shall permit a Participant a right to receive a distribution at a time otherwise not permitted under the Plan nor shall it permit the alternate payee to receive a form of payment not permitted under the Plan. Provided, however, in addition to the optional forms of retirement benefit described in Section 6.03, a distribution required to be made under this section may also be made in a single sum payment.

The Plan Administrator shall establish reasonable procedures to determine the qualified status of a domestic relations order. Upon receiving a domestic relations order, the Plan Administrator promptly shall notify the Participant and an alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the qualified status of the order. Within a reasonable period of time after receiving

the domestic relations order, the Plan Administrator shall determine the qualified status of the order and shall notify the Participant and each alternate payee, in writing, of its determination. The Plan Administrator shall provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order, or in a manner consistent with Department of Labor regulations. The Plan Administrator may treat as qualified any domestic relations order entered before January 1, 1985, irrespective of whether it satisfies all the requirements described in Code Section 414(p).

If any portion of the Present Value of the Participant's Vested Accrued Benefit is payable during the period the Plan Administrator is making its determination of the qualified status of the domestic relations order, a separate accounting shall be made of the amount payable. If the Plan Administrator determines the order is a qualified domestic relations order within 18 months of the date amounts are first payable following receipt of the order, the payable amounts shall be distributed in accordance with the order. If the Plan Administrator does not make its determination of the qualified status of the order within the 18 month determination period, the payable amounts shall be distributed in the manner the Plan would distribute if the order did not exist and the order shall apply prospectively if the Plan Administrator later determines the order is a qualified domestic relations order.

The Plan shall make payments or distributions required under this section by separate benefit checks or other separate distribution to the alternate payee(s).

ARTICLE VII

TERMINATION OF PLAN

The Employer expects to continue the Plan indefinitely but reserves the right to terminate the Plan in whole or in part at any time upon giving written notice to all parties concerned.

Upon complete termination of the Plan, no further Employees shall become Participants, and no further Contributions shall be made.

ARTICLE VIII

ADMINISTRATION OF PLAN

SECTION 8.01--ADMINISTRATION.

The Plan Administrator has complete discretion to construe or interpret the provisions of the Plan, including ambiguous provisions, if any, to determine eligibility for benefits, and to determine the type and extent of benefits, if any, to be provided. The Plan Administrator's decisions in such matters shall be controlling, binding, and final. In any action to review any decision by the Plan Administrator, the Plan Administrator shall be deemed to have exercised discretion properly unless it is proven duly that the Plan Administrator has acted arbitrarily and capriciously.

Unless otherwise set out in the Plan or Group Contract, the Plan Administrator may delegate recordkeeping and other duties which are necessary for the administration of the Plan to any person or firm which agrees to accept such duties. The Plan Administrator shall be entitled to rely upon all tables, valuations, certificates and reports furnished by the consultant or actuary appointed by the Plan Administrator and upon all opinions given by any counsel selected or approved by the Plan Administrator.

The Plan Administrator shall receive all claims for benefits by Participants, former Participants, Beneficiaries, spouses, and Contingent Annuitants. The Plan Administrator shall determine all facts necessary to establish the right of any Claimant to benefits and the amount of those benefits under the provisions of the Plan. The Plan Administrator may establish rules and procedures to be followed by Claimants in filing claims for benefits, in furnishing and verifying proofs necessary to determine age, and in any other matters required to administer the Plan.

SECTION 8.02--PENSION PLAN INVESTMENT COMMITTEE.

The Pension Plan Investment Committee of Principal Life Insurance Company shall consist of a chairperson and other members appointed by the Chief Executive Officer who shall serve until appointment of a successor or resignation and without compensation for services as such.

All expenses incurred shall be paid by the Employer.

The Committee shall establish and periodically review the investment policy with respect to Plan assets, and shall periodically report to the Management Resources Committee.

All acts and determinations of the Committee shall be duly recorded and all such records shall be preserved in its custody.

SECTION 8.03--RECORDS.

All acts and determinations of the Plan Administrator shall be duly recorded. All these records, together with other documents necessary for the administration of the Plan, shall be preserved in the Plan Administrator's custody.

Writing (handwriting, typing, printing), photostating, photographing, microfilming, magnetic impulse, mechanical or electrical recording or other forms of data compilation shall be acceptable means of keeping records.

SECTION 8.04--INFORMATION AVAILABLE.

Any Participant in the Plan or any Beneficiary may examine copies of the Plan description, latest annual report, any bargaining agreement, this Plan, the Group Contract or any other instrument under which the Plan was established or is operated. The Plan Administrator shall maintain all of the items listed in this section in its office, or in such other place or places as it may designate in order to comply with governmental regulations. These items may be examined during reasonable business hours. Upon the written request of a Participant or Beneficiary receiving benefits under the Plan, the Plan Administrator will furnish him with a copy of any of these items. The Plan Administrator may make a reasonable charge to the requesting person for the copy.

SECTION 8.05--CLAIM AND APPEAL PROCEDURES.

A Claimant must submit any required forms and pertinent information when making a claim for benefits under the Plan.

If a claim for benefits under the Plan is denied, the Plan Administrator shall provide adequate written notice to the Claimant whose claim for benefits under the Plan has been denied. The notice must be furnished within 90 days of the date that the claim is received by the Plan Administrator. The Claimant shall be notified in writing within this initial 90-day period if special circumstances require an extension of time needed to process the claim and the date by which the Plan Administrator's decision is expected to be rendered. The written notice shall be furnished no later than 180 days after the date the claim was received by the Plan Administrator.

The Plan Administrator's notice to the Claimant shall specify the reason for the denial; specify references to pertinent Plan provisions on which denial is based; describe any additional material and information needed for the Claimant to perfect his claim for benefits; explain why the material and information is needed; inform the Claimant that any appeal he wishes to make must be in writing to the Plan Administrator within 60 days after receipt of the Plan Administrator's notice of denial of benefits and that failure to make the written appeal within such 60-day period shall render the Plan Administrator's determination of such denial final, binding and conclusive.

If the Claimant appeals to the Plan Administrator, the Claimant, or his authorized representative, may submit in writing whatever issues and comments the Claimant, or his representative, feels are pertinent. The Claimant, or his authorized representative may review pertinent Plan documents. The Plan Administrator shall reexamine ail facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator shall advise the Claimant of its decision within 60 days of his written request for review, unless special circumstances (such as a hearing) would make rendering a decision within the 60.day limit unfeasible. The Claimant must be notified within the 60-day limit if an extension is necessary. The Plan Administrator shall render a decision on a claim for benefits no later than 120 days after the request for review is received.

SECTION 8.06--DELEGATION OF AUTHORITY.

All or any part of the administrative duties and responsibilities under this article may be delegated by the Plan Administrator. The duties and responsibilities delegated shall be set out here or in a separate written agreement.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.01--AMENDMENTS.

The Board of Directors of the Employer reserves the right and authority to amend the Plan provisions from time to time. In most instances this authority has been delegated to the Employer who may amend this Plan at any period of time as may be determined by Internal Revenue Service regulations) governmental agency to which the Plan is subject.

SECTION 9.02--PROVISIONS RELATING TO THE INSURER.

The obligations of an Insurer shall be governed solely by the provisions of the Group Contract. The Insurer shall not be required to perform any act not provided in or contrary to the provisions of the Group Contract. See the CONSTRUCTiON SECTION of this article.

Any issuer or distributor of investment contracts or securities is governed solely by the terms of its policies, written investment contract, prospectuses, security instruments, and any other written agreements entered into with the Trustee.

Such Insurer, issuer or distributor is not a party to the Plan or Trust, nor bound in any way by the Plan or Trust provisions. Such parties shall not be required to look to the terms of this Plan or Trust, nor to determine whether the Employer, the Plan Administrator or the Trustee have the authority to act in any particular manner or to make any contract or agreement.

Until notice of any amendment or termination of this Plan or Trust has been received by the Insurer at its home office or an issuer or distributor at their principal address, they are and shall be fully protected in assuming that the Plan or Trust has not been amended or terminated and in dealing with any party acting as Trustee according to the latest information which they have received at their home office or principal address.

SECTION 9.03--EMPLOYMENT STATUS.

Nothing contained in this Plan gives an Employee the right to be retained in the Employer's employ or to interfere with the Employer's right to discharge any Employee.

SECTION 9.04--RIGHTS TO PLAN ASSETS.

No Employee shall have any right to or interest in any assets of the Plan upon termination of his employment or otherwise except as specifically provided under this Plan, and then only to the extent of the benefits payable to such Employee in accordance with Plan provisions. Any benefit payable will be distributed from the general assets of the Employer. Participants have no greater rights with regard to such benefit than any other general creditor of the Employer.

Any final payment or distribution to a Participant or his legal representative or to any Beneficiaries, spouse or Contingent Annuitant of such Participant under the Plan provisions shall be in full satisfaction of all claims

against the Plan, the Plan Administrator, the Trustee, the Insurer, and the Employer arising under or by virtue of the Plan.

SECTION 9.05--BENEFICIARY.

Each Participant may name a Beneficiary to receive any death benefit (other than any income payable to a Contingent Annuitant) that may arise out of his participation in the Plan, The Participant may change his Beneficiary from time to time. The Participant's Beneficiary designation and any change of Beneficiary shall be the same as under the Associated Plan. It is the responsibility of the Participant to give written notice to the Insurer of the name of the Beneficiary on a form furnished for that purpose.

With the Employer's consent, the Plan Administrator may maintain records of Beneficiary designations for Participants before their Retirement Dates. In that event, the written designations made by Participants shall be filed with the Plan Administrator. If a Participant dies before his Retirement Date, the Plan Administrator shall certify to the Insurer the Beneficiary designation on its records for the Participant.

If, at the death of a Participant, there is no Beneficiary named or surviving, any death benefit under the Group Contract shall be paid under the applicable provisions of the Group Contract.

SECTION 9.06--NONALIENATION OF BENEFITS.

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant, Beneficiary, spouse or Contingent Annuitant. A Participant, Beneficiary, spouse or Contingent Annuitant does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.

SECTION 9.07--CONSTRUCTION.

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Employer has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any contract or policy issued hereunder, the provisions of the Plan control the operation and administration of the Plan.

SECTION 9.08--LEGAL ACTIONS.

The Plan, the Plan Administrator and the Trustee are the necessary parties to any action or proceeding involving the assets held with respect to the Plan or administration of the Plan or Trust. No person employed by the Employer, no Participant, former Participant or their Beneficiaries or any other person having or claiming to have an interest in the Plan is entitled to any notice of process. A final judgment entered in any such action or proceeding shall be binding and conclusive on all persons having or claiming to have an interest in the Plan.

SECTION 9.09--WORD USAGE.

The masculine gender, where used in this Plan, shall include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

SECTION 9.1O--SMALL AMOUNTS.

If the Present Value of the Participant's deferred Accrued Benefit does not exceed $5,000, such Present Value shall be payable in a single sum as of the Participant's Retirement Date or the date he ceases to be an Active Participant for any reason other than death. If the Participant's deferred Accrued Benefit is zero on the date he ceases to be an Active Participant for any reason other than death, he shall be deemed to have received a single-sum payment of the Present Value of his deferred Accrued Benefit on such date. This is a small amounts payment. Such small amounts payment shall be made to the Participant. Such small amounts payment shall be in full settlement of all benefits otherwise payable. If the Present Value of the Preretirement Survivor Annuity does not exceed $5,000, the Present Value of any death benefit shall be payable in a single sum as of the date the Participant dies if such Present Value is not more than $5,000. This is a small amounts payment. Such small amounts payment shall be made to the Participant's Beneficiary (Spouse, if the death benefit is payable to the Spouse). Such small amounts payment is in full settlement of the death benefit otherwise payable.

By executing this Plan, the Primary Employer acknowledges having counseled to the extent necessary with selected legal and tax advisors regarding the Plan's legal and tax implications.

Executed this 21st day of August, 1996.

PRINCIPAL MUTUAL LIFE INSURANCE COMPANY

By: /s/ MAX F. JOHNSON

Vice President - Human Resources

Title

EXHIBIT 10.7

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") dated as of 5/19, 2000 ("Agreement Date") by and between Principal Mutual Holding Company, an Iowa mutual holding company (together with all successors thereto, "Mutual"), Principal Financial Group, Inc., an Iowa corporation, Principal Financial Services, Inc., an Iowa corporation, and Principal Life Insurance Company, an Iowa corporation (together with all successors thereto, "Life") (each of the foregoing referred to individually as a "Company" or collectively as "Companies"), and J. Barry Griswell ("Executive"), a resident of Iowa. Executive is currently serving as Chief Executive Officer of the Companies. The parties desire to enter into this Agreement, which is intended to more fully embody the agreement among the parties as to Executive's employment. This Agreement supersedes the letters dated November 13, 1997 and January 26, 2000 from David J. Drury to Executive. In consideration of the mutual agreements contained herein, the Company and Executive agree as follows:

ARTICLE I.

DEFINITIONS

The terms set forth below have the following meanings (such meanings to be applicable to both the singular and plural forms, except where otherwise expressly indicated):

1.1 "Accrued Annual Bonus" means the amount of any Annual Bonus earned but not yet paid with respect to any Fiscal Year ended prior to the Date of Termination.

1.2 "Accrued Base Salary" means the amount of Executive's Base Salary which is accrued but not yet paid as of the Date of Termination.

1.3 "Affiliate" means any Person that directly or indirectly controls, is controlled by, is under common control with, a Company. For the purposes of this definition, the term "control" when used with respect to any Person means (a) the power to direct or cause the direction of management or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, or (b) for purposes of Section 1.11 and Article VII, the power substantially to influence the direction of strategic management policies of such Person, and provided a Company has a direct or indirect commercial relationship with such Person, all as determined by the Human Resources Committee of the Board or its successor.

1.4 "Agreement" -- see the introductory paragraph of this Agreement.

1.5 "Agreement Date" -- see the introductory paragraph of this Agreement.

1.6 "Anniversary Date" means any annual anniversary of the Agreement Date.

1.7 "Annual Bonus" -- see Section 4.2.

1.8 "Base Salary" -- see Section 4.1.

1.9 "Beneficiary" -- see Section 9.6.

1.10 "Board" means the Board of Directors of Mutual unless the context indicates otherwise.

1.11 "Cause" means any of the following:

(a) Executive's conviction of, plea of guilty to, or plea of nolo contendere to a felony or misdemeanor (other than a traffic-related felony or misdemeanor) that involves fraud, dishonesty or moral turpitude,

(b) any willful action by Executive resulting in criminal, civil or internal Company conviction, sanction or judgment under Federal or State workplace harassment or discrimination laws or internal Company workplace harassment, discrimination or other workplace policy under which such action could be and could reasonably be expected to be grounds for immediate termination of a member of Senior Management (other than mere failure to meet performance goals, objectives, or measures),

(c) Executive's habitual abuse of or addiction to alcohol or controlled substances, which interferes with the performance of Executive's duties,

(d) Executive's willful and intentional material breach of this Agreement,

(e) Executive's habitual neglect of duties, (other than resulting from Executive's incapacity due to physical or mental illness) which results in substantial financial detriment to any of the Companies or any Affiliate,

(f) Executive's personally engaging in such conduct as results or is likely to result in (i) substantial damage to the reputation of any of the Companies or any Affiliate, as a respectable business, and (ii) substantial financial detriment (whether immediately or over time) to any of the Companies or any Affiliate,

(g) Executive's willful and intentional material misconduct in the performance or gross negligence of his duties under this Agreement that results in substantial financial detriment to a Company or any Affiliate,

(h) Executive's intentional failure (including a failure caused by gross negligence) to cause any of the Companies to comply with applicable law and regulations material to the business of such Company which results in substantial financial detriment to any of the Companies or any Affiliate, or

(i) Executive's willful or intentional failure to comply in all material respects with a specific written direction of the Board that is consistent with normal business practice and not inconsistent with this Agreement and Executive's responsibilities hereunder.

For purposes of clauses (d), (e), (f), (g) and (h) of the preceding sentence, Cause shall not mean the mere existence or occurrence of any one or more of the following, and for purposes of clause

(i) of the preceding sentence, Cause shall not mean the mere existence or occurrence of item (iv) below:

(i) bad judgment,

(ii) negligence, other than Executive's habitual neglect of duties or gross negligence;

(iii) any act or omission that Executive believed in good faith to have been in the interest of the Company (without intent of Executive to gain therefrom, directly or indirectly, a profit to which he was not legally entitled), or

(iv) failure to meet performance goals, objectives or measures;

provided, that for purposes of clauses (c), (d), (e), (f), (g), (h) and (i), any act or omission that is curable shall not constitute Cause unless the Company gives Executive written notice of such act or omission that specifically refers to this Section and, within 10 days after such notice is received by Executive, Executive fails to cure such act or omission. Notwithstanding anything to the contrary herein, any act or omission of which any member of the Board who is not a party to such act or omission has had actual knowledge for at least six months shall not constitute "Cause" under any clause of this Section.

1.12 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.13 "Company" -- see the introductory paragraph to this Agreement.

1.14 "Competitive Business" means as of any date any corporation or other Person (and any branch, office or operation thereof) that engages in, or proposes to engage in:

(a) the underwriting, reinsurance, marketing or sale of(i) any form of insurance of any kind that any of the Companies as of such date does, or has under active consideration a proposal to, underwrite, reinsure, market or sell (any such form of insurance, a "Company Insurance Product") or (ii) any other form of insurance that is marketed or sold in competition with any Company Insurance Product, or

(b) the sale of financial services which involve (i) the management, for a fee or other remuneration, of an investment account or fund (or portions thereof or a group of investment accounts or funds), (ii) the giving of advice, for a fee or other remuneration, with respect to the investment and/or reinvestment of assets or funds (or any group of assets or funds), or (iii) financial planning services, or

(c) the design, implementation and administration of employee benefit plans, including plan documents, employee communications, reporting, disclosure, financial advice, investment advice, and fiduciary services, or

(d) any other business that as of such date is a direct and material competitor of a Company and its Affiliates to the extent that prior to the Date of Termination any of

the Companies or its Affiliates engaged at any time within 12 months in or had under active consideration a proposal to engage in such competitive business;

and that is located anywhere in the United States or anywhere outside of the United States where such Company or its Affiliates is then engaged in, or has under active consideration a proposal to engage in, any of such activities.

1.15 "Date of Termination" means the date of the receipt of the Notice of Termination by Executive (if such Notice is given by or on behalf of Mutual) or by Mutual (if such Notice is given by Executive), or any later date, not more than 15 days after the giving of such Notice, specified in such notice, as of which Executive's employment with the Companies shall be terminated; provided, however, that:

(i) if Executive's employment is terminated by reason of death, the Date of Termination shall be the date of Executive's death; and

(ii) if Executive's employment is terminated by reason of Disability, the Date of Termination shall be the 30th day after Executive's receipt of the physician's certification of Disability, unless, before such date, Executive shall have resumed the full-time performance of Executive's duties; and

(iii) if Executive terminates his employment without Good Reason, the Date of Termination shall be the 30th day after the giving of such Notice; and

(iv) if no Notice of Termination is given, the Date of Termination shall be the last date on which Executive is employed by the Companies.

1.16 "Demutualization" means a conversion of Mutual from a company organized as a mutual company to a stock company, whether through reorganization, merger, consolidation, re-incorporation or otherwise.

1.17 "Disability" means a mental or physical condition which renders Executive . unable or incompetent to carry out the material job responsibilities which such Executive held or the material duties to which Executive was assigned at the time the disability was incurred, which has existed for at least six months and which in the certified opinion of a physician mutually agreed upon by Mutual and Executive (which agreement neither party shall unreasonably withhold) is expected to be permanent or to last for an additional duration in excess of six months.

1.18 "Employment Period" -- see Section 3.1.

1.19 "Executive" -- see the introductory paragraph of this Agreement.

1.20 "Fiscal Year" means the fiscal year used in connection with the preparation of the consolidated financial statements of Mutual.

1.21 "Good Reason" means the occurrence of any one of the following events unless Executive specifically agrees in writing that such event shall not be Good Reason:

(a) any material breach of the Agreement by any of the Companies, including any of the following, each of which shall be deemed material:

(i) any adverse change in the title, status, responsibilities, authorities or perquisites of Executive;

(ii) any failure of Executive to be nominated, appointed or elected and to continue to be nominated, re-elected, or re-appointed as President and Chief Executive Officer of Mutual;

(iii) any failure of Executive to be nominated, appointed or elected and to continue to be nominated, re-elected, or re-appointed as a member of the Board of Directors of Mutual or the Board of Directors of Life;

(iv) causing or requiring Executive to report to anyone other than the Board of Mutual;

(v) assignment to Executive of duties materially inconsistent with his position and duties described in this Agreement, including status, offices, or responsibilities as contemplated under Section 2.1 or any other action by any of the Companies which results in an adverse change in such position, status, offices, titles or responsibilities;

(vi) any reduction or failure to pay Executive's Base Salary in violation of Section 4.1 or his Annual Bonus in violation of Section 4.2;

(vii) any failure to grant or pay an LTIP Award or LTIP Bonus required under Section 4.3; or

(viii) any reduction in bonus or incentive (including without limitation, the LTIP) opportunity; provided that no such reduction shall be deemed to occur merely because the Company revises or modifies the structure of or performance factors taken into account (or the degree to which any such performance factors are taken into account) under any bonus or incentive (including without limitation, the LTIP) plan or arrangement; provided further that the Executive shall not be treated less favorably than the other members of Senior Management;

provided that the creation, existence or appointment of a Chief Executive Officer other than Executive of any subsidiary of Mutual shall not be deemed to be Good Reason if such other Chief Executive Officer reports, directly or indirectly, to Executive; and provided, further, that no act or omission described in clauses (i) through (viii) of this Section shall constitute Good Reason unless Executive gives Mutual written notice of such act or omission and the Company fails to cure such act or omission within 30-days after delivery of such notice (except that Executive shall not be required to provide such notice in case of intentional acts or omissions by a Company or more than once in cases of repeated acts or omissions); or

(b) the failure of Mutual to assign this Agreement to its successor or the failure of a successor of Mutual, Life or the Company to expressly assume and agree to be bound by the Agreement; or

(c) relocation of the Company's executive offices or Executive's own office location to a location that is outside the United States;

provided, however, that a Demutualization in and of itself shall not constitute Good Reason. In the event of an occurrence or omission constituting Good Reason, Executive shall not be entitled to terminate his employment for Good Reason unless within 3 months after Executive first obtains actual knowledge of such an event constituting Good Reason, he notifies Mutual of the events constituting such Good Reason and of his intention to terminate employment for Good Reason by a Notice of Termination.

1.22 "including" means including without limitation.

1.23 "Life" -- see the introductory paragraph to this Agreement.

1.24 "LTIP" means, as applicable, the Long-Term Performance Plan of Life, the 1999 Long-Term Performance Plan, and any of their respective successors or other long-term incentive plans in which Senior Management is generally eligible to participate.

1.25 "LTIP Award" means an incentive compensation opportunity granted under the LTIP.

1.26 "LTIP Bonus" means the amount paid or earned in respect of an LTIP Award.

1.27 "LTIP Performance Period" means any performance period designated in accordance with any LTIP approved by the Board of Life or any committee of the Board of Life.

1.28 "Mutual" -- see the introductory paragraph to this Agreement. If, prior to the Date of Termination, Mutual Demutualizes (as defined herein), the term "Mutual" shall, from and after the date of the Demutualization is effective, refer to the Demutualized entity.

1.29 "Notice of Termination" means a written notice of termination of Executive's employment given in accordance with Section 9.12 by Mutual on behalf of the Companies, or by Executive, as the case may be, which sets forth (a) the specific termination provision in this Agreement relied upon by the party giving such notice, (b) in reasonable detail the specific facts and circumstances claimed to provide a basis for such Termination of Employment, and (c) if the Date of Termination is other than the date of receipt of such Notice of Termination, the Date of Termination.

1.30 "Person" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

1.31 "Resent Value Actuarial Equivalent" means an amount equal in value to a benefit payable in a specified form on (or commencing on) a specified date, based on the method

specified in the Supplemental Executive Retirement Plan for Employees, as established January 1,1982, as amended and restated from time to time ("SERP"), under the definition of "Actuarial Equivalent" (which refers to the definition of such term in the Principal Pension Plan as established April 1, 1940, as amended and restated from time to time) or the successor plan to the SERP, provided that if the SERP no longer exists or such method is no longer specified in the SERP (whether by reference to another plan or otherwise), then based on the assumed rates of interest and mortality (weighted .65 male and .35 female) under Section 417(e) of the Code for the month (generally published at the beginning of the following month) prior to the month of the Executive's Date of Termination.

1.32 "Prorata Annual Bonus" means the product of(i) the Target Annual Bonus (provided that no effect shall be given to any reduction in such Target Annual Bonus that would qualify as Good Reason if Executive were to terminate his employment on account thereof) multiplied by (ii) a fraction of which the numerator is the number of days which have elapsed in such Fiscal Year through the Date of Termination and the denominator of which is 365.

1.33 "Retirement" means any Termination of Employment after Executive reaches age 57, other than for Cause and other than for Good Reason.

1.34 "Senior Management" means Executive Vice Presidents or higher level officers of Mutual in the United States.

1.35 "Target Annual Bonus" -- see Section 4.2.

1.36 "Target Annual Goals" -- see Section 4.2.

1.37 "Tax Gross-Up Payment" means an amount payable to Executive such that after payment of Taxes on such amount there remains a balance sufficient to pay the Taxes being reimbursed.

1.38 "Taxes" means the incremental federal, state, local and foreign income, employment, exercise other taxes payable by Executive with respect to any applicable item of income.

1.39 "Termination For Good Reason" means a Termination of Employment by Executive for a Good Reason.

1.40 "Termination of Employment" means a termination by the Companies or Executive of Executive's employment with the Companies and their Affiliates.

1.41 "Termination Without Cause" means a Termination of Employment by the Companies for any reason other than Cause or Executive's death or Disability.

1.42 "Voting Securities" of a corporation means securities of such corporation that are entitled to vote generally in the election of directors of such corporation.

1.43 "Withholding Taxes" means any federal, state, provincial, local or foreign withholding taxes and other deductions required to be paid in accordance with applicable law by reason of compensation received pursuant to this Agreement.

ARTICLE II.

DUTIES

2.1 Duties. Mutual shall continue to employ Executive during the Employment Period as its President and Chief Executive Officer, and Executive shall have the authority, duties, and responsibilities as are commensurate and consistent with such position and title, and as provided in, Mutual's by-laws. The Parties acknowledge that as of the Agreement Date, Executive also serves as President and Chief Executive Officer of Life. It is contemplated that, in connection with each annual meeting or action by written consent in lieu thereof of members (or, after any Demutualization, stockholders or their equivalent) of Mutual and of Life during the Employment Period, the members (or, if applicable, stockholders) of Mutual and of Life, respectively will elect Executive to their respective Boards. Executive shall report solely to the Board of Mutual. During the Employment Period, Executive shall be the most senior executive of Mutual and shall have broad discretion and authority to manage and direct the day-to-day affairs and operations of the Companies in compliance with applicable law, including the sole authority to direct the strategic direction of the Companies, except to the extent required in connection with the exercise by the Board of its corporate governance duties and responsibilities under Mutual's by-laws and other applicable law. During the Employment Period, Executive shall follow the directives of the Board and shall meet with the Board on a periodic basis sufficient to enable the Board to fulfill its corporate governance responsibilities. All operating, staff, other executives, and divisions of the Companies, excluding the governmental relations department which may at the Board's discretion report to the Board or its delegate, shall report solely to Executive, either directly or indirectly through subordinates of Executive who report to Executive. During the Employment Period, Executive shall perform the duties assigned to him hereunder, and, subject to Section 2.2, shall devote his till business time, attention and effort, excluding any periods of disability, vacation, or sick leave to which Executive is entitled, to the affairs of the Companies and shall use his best efforts to promote the interests of the Companies. The Executive acknowledges that his business time is not limited to a fixed number of hours per week.

2.2 Other Activities. Executive may serve on corporate, civic or charitable boards or committees, deliver lectures, fulfill speaking engagements or teach at educational institutions, and manage personal investments; provided that such activities do not individually or in the aggregate significantly interfere with the performance of Executive's duties under this Agreement.

ARTICLE III.

EMPLOYMENT PERIOD

3.1 Employment Period. Subject to the termination provisions hereinafter provided, the term of Executive's employment under this Agreement (the "Employment Period") shall

begin on the Agreement Date and end on the Anniversary Date which is three years tier such date or, if later, such later date to which the Employment Period is extended pursuant to the following sentence. On the first anniversary of the Agreement Date and thereafter, the Employment Period shall be automatically extended each day by one day to create a new two year term until, at any time after the first anniversary of the Agreement Date, Mutual delivers written notice (an "Expiration Notice") to Executive or Executive delivers an Expiration Notice to Mutual, in either case, to the effect that the Agreement shall expire on a date specified in the Expiration Notice (the "Expiration Date") that is not less than two years after the date the Expiration Notice is delivered to Mutual or the Executive, respectively; provided, however, the Employment Period shall automatically end on Executive's 65th birthday (March 15, 2014) unless Mutual delivers, any time prior to one year before such date of expiration, written notice to Executive that the Agreement shall not so expire and shall instead, subject to the prompt consent of Executive, expire (unless further extended by mutual consent) on a date specified ill such notice. The employment of Executive by Mutual shall not be terminated other than in accordance with Article VI.

ARTICLE IV.

COMPENSATION

4.1 Salary. Executive shall be paid in accordance with normal payroll practices (but not less frequently than monthly) an annual salary at a rate of $850,000 per year ("Base Salary"). During the Employment Period, the Base Salary shall be reviewed periodically and may be increased from time to time as shall be determined by the Board, in accordance with normal Company administrative practices for Senior Management after consultation with Executive. After any such increase, the term "Base Salary" shall thereafter refer to the increased amount. Any increase in Base Salary shall not. limit or reduce any other obligation of the Company to Executive under this Agreement. Base Salary shall not be reduced at any time without the express written consent of Executive; provided that the Board may, in its discretion restructure or alter the time of payment of Base Salary after Demutualization in order to enhance the deductibility thereof, provided there is no economic detriment to the Executive and that the Board and Executive shall cooperate in good faith in such restructuring or alteration.

4.2 Annual Bonus.

(a) Executive shall be paid an annual bonus ("Annual Bonus") in accordance with the terms hereof for each Fiscal Year which begins or ends during the Employment Period. Executive shall be eligible for an Annual Bonus based upon target performance goals (the "Target Annual Goals"), as determined by the Board on an annual basis, after consultation with Executive and in accordance with normal Company administrative practices for Senior Management, which provides for a payment opportunity of at least the highest target level generally available to Senior Management under any Company annual bonus plan ("Target Annual Bonus") upon the Executive's achievement of the Target Annual Goals. The parties acknowledge that, as of the Agreement Date, the Annual Bonus is payable in accordance with the Company plan named PrinPay. The appropriate Board may restructure or alter the time of payment of the Annual Bonus in order to enhance the deductibility thereof after Demutualization, provided there is no

economic detriment to the Executive and that the Board and Executive shall cooperate in good faith in such restructuring or alteration.

(b) The entire Annual Bonus that is payable to Executive with respect to ti Fiscal Year shall be paid in cash, or such other medium as is generally applicable to members of Senior Management, as soon as practicable after the appropriate Board has determined whether and the degree to which Target Annual Goals have been achieved following the close of such Fiscal Year. In any event, the entire Annual Bonus that is payable to Executive with respect to a Fiscal Year shall be paid at the same time as the dual Bonus is paid to the other members of Senior Management, but in any event no later than 90 days after the end of the Fiscal Year.

4.3 Long-Term Incentive Plan Bonus and Other Incentive Compensation. Executive shall have the opportunity to participate in the LTIP (if such plan exists) and any other incentive compensation plan or program available to Senior Management at the highest available level under such plan or program. The appropriate Board may restructure or alter the time of payment of amounts under the LTIP or other incentive compensation plan or program in order to enhance the deductibility thereof after Demutualization, provided there is no economic detriment to the Executive and that the Board and Executive shall cooperate in good faith in such restructuring or alteration.

4.4 Savings and Retirement Plans. Executive shall be eligible to participate during the Employment Period in any Company's savings and retirement plans, practices, policies and programs, in accordance with the terms thereof, at the highest available level, if any, applicable from time to time to members of Senior Management, including any supplemental executive retirement plan.

ARTICLE V.

OTHER BENEFITS

5.1 Welfare Benefits. During the Employment Period, Executive and his family shall be eligible to participate in at the highest level, and shall receive all benefits under, any Company's welfare benefit plans, practices, policies and programs provided or made generally available by the Company to Senior Management (including medical, prescription, dental, disability, salary continuance, employee life, group life, dependent life, accidental death and travel accident insurance plans and programs), in accordance with their terms as in effect from time to time. Notwithstanding the foregoing, the Companies shall provide Executive with disability insurance coverage on terms no less favorable to Executive than those in effect on the Agreement Date (including, without limitation, percentage of salary provided as a disability benefit, but subject to any maximum limitation on the dollar amount applicable to Senior Management, provided that such limitation shall not be applied to reduce the dollar amount of the monthly amount of Executive's long term disability benefit below $46,630.87). In addition, to the extent not covered in the first sentence of this Section 5.1, Executive shall be entitled to reimbursement for an annual executive physical examination at the Mayo Clinic or equivalent medical facility of his choosing.

5.2 Fringe Benefits. During the Employment Period, Executive shall be entitled to fringe benefits generally applicable to Senior Management in accordance with their terms as in effect from time to time.

5.3 Vacation. During the Employment Period, Executive shall be entitled to paid vacation time under the plans, practices, policies, and programs generally applicable to members of Senior Management in accordance with their terms as in effect from time to time.

5.4 Expenses. Executive shall be promptly reimbursed for all actual and reasonable employment-related business expenses he incurs during the Employment Period in accordance with any Company's practices, policies, and procedures generally applicable to members of Senior Management in accordance with their terms as in effect from time to time, including the timely submission of required receipts and accountings. In addition, Executive shall be entitled to first-class air travel for business. Notwithstanding the foregoing, no expense shall be reimbursed more than once.

ARTICLE VI.

TERMINATION BENEFITS

6.1 Termination for Cause or Other than for Good Reason, etc.

(a) If Mutual terminates Executive's employment with the Companies for Cause or Executive terminates his employment other than for Good Reason, death or Disability, the Executive shall be entitled to receive immediately after the Date of Termination a lump sum amount equal to the sum of Executive's Accrued Base Salary and Accrued Annual Bonus, and Executive shall not be entitled to receive any severance or other payment, other than compensation and benefits which relate to or derive from Executive's employment with the Companies on or prior to the Date of Termination (including, without limitation, any deferrals under the LTIP) and which are otherwise payable in case of termination for Cause or other than for Good Reason, death or Disability, as applicable.

(b) Executive's employment may be terminated for Cause only if(i) Mutual provides Executive (before the Date of Termination) with written notice of the Board meeting referred to in clause (ii) of this Section 6.1(b) at least twenty days prior to such meeting and specifies in detail in writing the basis of a claim of Cause and provides Executive, with or without counsel, at Executive's election, an opportunity to be heard and present arguments and evidence on Executive's behalf at such meeting, (ii) the Mutual Board, by affirmative vote of not less than 2/3 of the entire membership of the Mutual Board (excluding the Executive's vote from any such determination) that the acts or omissions constitute Cause which Executive failed to cure after being given an opportunity to cure if required by Section 1.11, and to the effect that Executive's employment should be terminated for Cause and (iii) Mutual thereafter provides Executive a Notice of Termination which specifies in detail the basis of such Termination of Employment for Cause. Nothing in this Section 6.1 (b) shall preclude the Board, by majority vote, from suspending Executive from his duties, with pay at any time.

6.2 Termination for Retirement, Death or Disability. If, before the end of the Employment Period, Executive's employment terminates due to his Retirement, death or Disability, Executive or his Beneficiaries, as the case may be, shall be entitled to receive immediately after the Date of Termination, a lump sum amount which is equal to the sum of Executive's Accrued Base Salary, Accrued Annual Bonus, and Prorata Annual Bonus. Executive's LTIP Bonus shall be paid according to the terms of the LTIP.

6.3 Termination Without Cause or for Good Reason. In the event of a Termination Without Cause or a Termination for Good Reason (in either case occurring during the Employment Period), Executive shall be entitled to receive the following:

(a) promptly after the Date of Termination, (but in no event later than ten business days after the Date of Termination) a lump sum amount equal to the sum of Executive's Accrued Base Salary, Accrued Annual Bonus and Prorata Annual Bonus;

(b) promptly after the Date of Termination, (but in no event later than ten business days after the Date of Termination), a lump sum amount equal to the product of (i) the sum of Base Salary plus Target Annual Bonus for the Fiscal Year during which the Date of Termination occurs (provided that no effect shall be given to any reduction in Target Annual Bonus that would qualify as Good Reason if Executive were to terminate his employment on account thereof), plus the LTIP Bonus most recently earned prior to the Date of Termination, and multiplied by (ii) two;

(c) for each LTIP Performance Period that is unexpired as of the Date of Termination, Executive shall be treated as he would be treated under the LTIP effect on the Agreement Date if (i) he terminated employment at age 57 other than for cause (as defined in the LTIP) and (ii) he retired ("LTIP Benefit"); provided that the discretion of the Committee shall not be exercised so as to treat Executive less favorably than other members of Senior Management; provided further that if such payment cannot be provided under the terms of the LTIP, then the Company shall pay amounts equal to such LTIP Benefit, reduced by amounts actually payable under the LTIP at the same time as they otherwise would have been paid;

(d) the benefits specified in Section 5.1, except to the extent provided under Section 6.3(e), and Section 5.2 to which Executive is entitled as of the Date of Termination, for two years following his Date of Termination, subject to the terms of applicable plans, programs or policies; provided that the Executive shall pay the same amount for such benefits as covered members of Senior Management who are actively employed would pay; provided further that any coverage required to be offered by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, shall begin after such benefits otherwise cease hereunder;

(e) if the Date of Termination occurs prior to the Executive's 57th birthday, the benefits equivalent to those payable under the Principal Welfare Benefit Plan for Employees calculated under the terms of such plan as if the Date of Termination occurred after Executive's 57th birthday, reduced by amounts actually payable under such plan, and if either Executive or the Company reasonably believes it is likely that such benefits

cannot be provided on a tax-favored basis, the Company shall pay the cost of the insurance premium for such benefits;

(f) if the Date of Termination occurs prior to Executive's 57th birthday, promptly, but in no event later than ten business days after the Date of Termination, an amount equal to the Present Value Actuarial Equivalent of the benefits to which Executive would be entitled if he had reached his 57th birthday prior to his Date of Termination and if he had accrued a number of years of service that is equal to the number of years of service he would have accrued had his Date of Termination been his 57th birthday under the Principal Pension Plan for Employees, and the Supplemental Executive Retirement Plan for Employees, reduced by the Present Value Actuarial Equivalent of benefits actually payable under such plans calculated as though such plans permitted payment at the Executive's Date of Termination by applying an early retirement factor that declines by 5% (from the factor utilized for termination of employment at Executive's actual age at termination of employment and upon commencement of early retirement at the earliest retirement age) for each year that Executive's Date of Termination precedes the earliest age at which early retirement is actually permitted under such plan;

(g) all outstanding stock options, stock appreciation rights, and restricted stock shall become vested; and

(h) key executive level outplacement services, the provider of which shall be selected by Executive, up to a maximum of $10,000; provided that in no event shall any amount be payable to ,Executive in lieu of his receipt of such services.

Notwithstanding anything herein to the contrary, the benefits provided in Section 6.3 shall be provided only upon Executive's execution of a release and waiver as described in Section 6.5.

6.4 Other Rights. This Agreement shall not prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other plan, program or policy provided by the Company and for which Executive may qualify, and shall not impair the Company's rights to amend or terminate any benefit, bonus, incentive or other plan program or policy; provided however that no such amendment or termination shall treat Executive less favorably than other Senior Management and Executive's benefits, bonus and incentives in the aggregate shall not be reduced. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan, program or policy and any other payment or benefit required by law at or after the Date of Termination shall be payable in accordance with such plan, program or policy or applicable law except as expressly modified by this Agreement.

6.5 Waiver and Release. Notwithstanding anything herein to the contrary, upon any Termination of Employment (other than due to death)

(a) the Executive shall execute a release and waiver in form mutually agreed by Executive and the Board of Mutual (which agreement neither party shall unreasonably withhold) which releases, waives, and forever discharges the Companies, their Affiliates, and their respective subsidiaries, affiliates, employees, officers, shareholders, members,

partners, directors, agents, attorneys, predecessors, successors and assigns, from and against any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys' fees, damages and obligations of every kind and nature in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, including but not limited to any and all such claims and demands directly or indirectly arising out of or in any way connected with the Executive's employment with and services as a director of the Companies and their Affiliates; claims or demands related to compensation or other amounts under any compensatory arrangement, stock, stock options, or any other ownership interests in any of the Companies or any Affiliate, vacation pay, fringe benefits, expense reimbursements, severance benefits, or any other form of compensation or equity; claims pursuant to any federal, state, local law, statute of cause of action including, but not limited to, the federal Civil Rights Act of 1964, as amended; the federal Age Discrimination in Employment Act of 1967, as amended; the federal Americans with Disabilities Act of 1990; tort law, contract law; wrongful discharge, discrimination; defamation; harassment; or emotional distress; provided that Executive's waiver and release shall not relieve the Companies from any of the following obligations, to the extent they are to be performed after the date of the release and waiver: (i) payment of amounts due under Sections 6.1, 6.2 or 6.3, as applicable, (ii) any obligations under the. second sentence of Section 6.4, and (iii) payment of any gross-up amount due under Article VIII; and provided further that (x) neither party shall release the other from his or its obligations under Article IX of this agreement, to the extent such obligations are to be performed after the Date of Termination, and (y) Executive shall not be precluded from defending against Cause Claims (as defined in Section 6.5(b)); and

(b) the Company shall execute a release and waiver in form mutually agreed by Executive and the Board of Mutual (which agreement neither party shall unreasonably withhold) which releases, waives, and forever discharges the Executive and his executors, administrators, successors and assigns, from and against any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys' fees, damages and obligations of every kind and nature in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, including but not limited to any and all such claims and demands directly or indirectly arising out of or in any way connected with the Executive's employment with or service as a director of the Companies and their Affiliates, but excluding any such claims liabilities, demands, causes of action, costs, expenses, attorneys' fees, damages or obligations arising out of or in any way connected with events, acts or conduct giving rise to or in any way connected with Executive's Termination of Employment for Cause ("Cause Claims"), provided, however, that (i) neither party shall release the other from his or its obligations under Article IX of this agreement, to the extent such obligations are to be performed after the Date of Termination, and (ii) Executive shall not be precluded from defending against Cause Claims.

(c) Executive hereby agrees that the execution of this Agreement is adequate consideration for the execution of such a release, and hereby acknowledges that the Companies would not have executed this Agreement had Executive not agreed to execute such a release.

ARTICLE VII.

RESTRICTIVE COVENANTS

7.1 Non-Competition. Executive shall not at any time during the period beginning on the Agreement Date and ending on the second anniversary of the Date of Termination (whether or not during the Term), directly or indirectly, in any capacity:

(a) engage or participate in, become employed by, serve as a director of, or render advisory or consulting or other services in connection with, any Competitive Business; provided, however, that after the Date of Termination this Section 7.1(a) shall not preclude Executive from being an employee of, or consultant to, any business unit of a Competitive Business if (i) such business unit does not qualify as a Competitive Business in its own right and (ii) Executive does not have any direct or indirect involvement in, or responsibility for, any operations of such Competitive Business that cause it to qualify as a Competitive Business; or

(b) make or retain any financial investment, whether in the form of equity or debt, or own any interest, in any Competitive Business; provided, however, that nothing in this subsection shall restrict Executive from making an investment in any Competitive Business if such investment (i) represents no more than 1% of the aggregate market value of the outstanding capital stock or debt (as applicable) of such Competitive Business, (ii) does not give Executive any right or ability, directly or indirectly, to control or influence the policy decisions or management of such Competitive Business, and (iii) does not create a conflict of interest between Executive's duties under this Agreement and his interest in such investment.

7.2 Non-Solicitation. Executive shall not at any time during the period beginning on the Agreement Date and ending on the second anniversary of the Date of Termination (whether or not during the Term), directly or indirectly:

(a) other than in connection with the good-faith performance of his duties as an officer of any of the Companies, encourage any employee or agent of the Companies or any Affiliate to terminate his relationship with any of the Companies or any Affiliate;

(b) solicit the employment of or the engagement as a consultant or advisor of, any employee or agent of any of the Companies or any Affiliate (other than by the Company or an Affiliate), or cause or encourage any Person to do any of the foregoing;

(c) establish (or take preliminary steps to establish) a business with, or encourage others to establish (or take preliminary steps to establish) a business with, any employee or agent of the Company or any Affiliate; or

(d) interfere with the relationship of any of the Companies with, or endeavor to entice away from any of the Companies, any Person who or which at any time during the period commencing one year prior to the Agreement Date was or is a material client or material supplier of, or maintained a material business relationship with, any of the Companies or an Affiliate.

7.3 Confidentiality The Executive acknowledges that in the course of performing services for the Companies and Affiliates, he may create, develop, learn of, receive or contribute non-public information, ideas, processes, methods, designs, devices, inventions, data, models and other information relating to the Companies and their Affiliates or their products, services, businesses, operations, employees or customers, whether in tangible or intangible form, and that the Companies or their Affiliates desire to protect and keep secret and confidential, including trade secrets and information from third parties that the Companies or their Affiliates are obligated to keep confidential ("Confidential Information"). Confidential Information shall not include: (i) information that is or becomes generally known through no fault of Executive; (ii) information received from a third party outside of the Company that was disclosed without a breach of any confidentiality obligation; or (iii) information approved for release by written authorization of the Company. The Executive recognizes that all such Confidential Information is the sole and exclusive property of the Companies and their Affiliates, and that disclosure of Confidential Information would cause damage to the Companies and their Affiliates. The Executive agrees that, except as required by the duties of his employment with any of the Companies or any of their and/or its Affiliates and except in connection with enforcing the Executive's rights under this Agreement or if compelled by a court or governmental agency, in each case provided that prior written notice is given to Mutual, he will not, without the consent of Mutual, willfully disseminate or otherwise disclose, directly or indirectly, any Confidential Information obtained during his employment with any of the Companies or their Affiliates, and will take all necessary precautions to prevent disclosure, to any unauthorized individual or entity inside or outside the Company, and will not use the Confidential Information or permit its use for the benefit of Executive or any other person or entity other than the Companies or the Affiliates. These obligations shall continue during and after the termination of Executive's employment (whether or not during the Employment Period).

7.4 Intellectual Property. During the employment period, Executive shall disclose immediately to the Company all ideas, inventions and business plans that he makes, conceives, discovers or develops alone or with others during the course of his employment with the Company, including any inventions, modifications, discoveries, developments, improvements, computer programs, processes, products or procedures (whether or not protectable upon application by copyright, patent, trademark, trade secret or other proprietary rights) ("Work Product") that: (i) relate to the business of the Company or any customer or supplier to the Company or any of the products or services being developed, manufactured, sold or otherwise provided by the Company or that may be used in relation therewith; or (ii) result from tasks assigned to Executive by the Company; or (iii) result from the use of the premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company. Executive agrees that any Work Product shall be the property of the Company and, if subject to copyright, shall be considered a "work made for hire" within the meaning of the Copyright Act of 1976, as amended (the "Act). If and to the extent that any such Work Product is found as a matter of law not to be a "work made for hire" within the meaning of the Act, Executive expressly assigns to the Company all right, title and interest in and to the Work Product, and all copies thereof, and the copyright, patent, trademark, trade secret and all their proprietary rights in the Work Product, without further consideration, free corn any claim, lien for balance due or rights of retention thereto on the part of Executive.

(a) The Company hereby notifies Executive that the preceding paragraph does not apply to any inventions for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on the Executive's own time, unless: (i) the invention relates (a) to the Company's business, or (b) to the Company's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by the Executive for the Company.

(b) Executive agrees that upon disclosure of Work Product to the Company, Executive will, during his employment and at any time thereafter, at the request and cost of the Company, execute all such documents and perform all such acts as the Company or its duly authorized agents may reasonably require: (i) to apply for, obtain and vest in the name of the Company alone (unless the Company otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world, and when so obtained or vested to renew and restore the same; and (ii) to defend any opposition proceedings in respect of such applications and arty opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection.

(c) In the event that the Company is unable, after reasonable effort, to secure Executive's signature on any letters patents, copyright or other analogous protection relating to Work Product, whether because of Executive's physical or mental incapacity or for any other reason whatsoever, Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his agent and attorney-in-fact, to act for and on his behalf to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright and ether analogous protection with the same legal force and effect as if personally executed by Executive.

7.5 Reasonableness of Restrictive Covenants.

(a) Executive acknowledges that the covenants contained in Sections 7.1, 7.2, 7.3 and 7.4 are reasonable in the scope of the activities restricted, the geographic area covered by the restrictions, and the duration of the restrictions, and that such covenants are reasonably necessary to protect the Companies' relationships with their employees, clients and suppliers. Executive further acknowledges such covenants are essential elements of this Agreement and that, but for such covenants, the Companies would not have entered into this Agreement.

(b) The Companies and Executive have each consulted with their respective legal counsel and have been advised concerning the reasonableness and propriety of such covenants. Executive acknowledges that his observance of the covenants contained in Sections 7.1, 7.2, 7.3 and 7.4 will not deprive him of the ability to earn a livelihood or to support his dependents.

7.6 Right to Injunction; Survival of Undertakings.

(a) In recognition of the necessity of the limited restrictions imposed by Sections 7.1, 7.2, 7.3 and 7.4, the parties agree that it would be impossible to measure

solely in money the damages that any of the Companies would suffer if Executive were to breach any of his obligations under such Sections. Executive acknowledges that any breach of any provision of such Sections would irreparably injure the Companies. Accordingly, Executive agrees that any of the Companies shall be entitled, in addition to any other remedies to which such Company may be entitled under this Agreement or otherwise, to an injunction to be issued by a court of competent jurisdiction, to restrain any actual breach, or threatened breach, of such provisions, and Executive hereby waives any right to assert any defense that any of the Companies has to adequate remedy at law for any such breach.

(b) If a court determines that any of the covenants included in this Article VII are unenforceable in whole or in part because of such covenant's duration or geographical or other scope, such court may modify the duration or scope of such provision, as the case may be, so as to cause such covenant as so modified to be enforceable.

(c) All of the provisions of this Article VII shall survive any Termination of Employment without regard to (i) the reasons for such termination or (ii) the expiration of the Employment Period.

(d) No Company shall have any further obligation to pay or provide severance or benefits under Section 6.3 if a court determines that the Executive has breached any covenant in this Article VII

ARTICLE VIII.

CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY

8.1 Tax Gross-Up Payment. If at any time or from time to time it shall be determined that any payment to Executive pursuant to this Agreement or any other payment or benefit ("Potential Parachute Payment") hereunder or otherwise would be subject to the excise tax imposed by Section 4999 of the Code or any similar tax payable under any United States federal, state, local, foreign or other law ("Excise Tax"), then Executive shall receive and Mutual shall pay or cause to be paid a Tax Gross-Up Payment with respect to all such excise taxes and other Taxes; provided, however, that this Article VIII shall be subject in its entirety to any Change of Control agreement with Executive entered after the Agreement Date by the Company. The Tax Gross-up Payment is intended to compensate Executive for all such excise taxes and any federal, state, local, foreign or other income, employment, or excise taxes or other taxes payable by Executive with respect to the Tax Gross-Up Payment.

8.2 Limitations on Gross-Up Payments.

(a) Notwithstanding any other provision of this Article VIII, if the aggregate After-Tax Amount (as defined below) of the Potential Parachute Payments and Tax Gross-Up Payment that, but for this Section 8.2, would be payable to Executive, does not exceed 120% of After-Tax Floor Amount (as defined below), then no Tax Gross-Up Payment shall be made to Executive and the aggregate amount of Potential Parachute Payments payable to Executive shall be reduced (but not below the Floor Amount) to the

largest amount which would both (i) not cause any Excise Tax to be payable by Executive and (ii) not cause any Potential Parachute Payments to become nondeductible by the Company by reason of Section 280G of the Code (or any successor provision). For purposes of the preceding sentence, Executive shall be deemed to be subject to the highest effective after-tax marginal rate of Taxes.

(b) For purposes of this Agreement:

(i) "After-Tax Amount" means the portion of a specified amount that would remain after payment of all Taxes paid or payable by Executive in respect of such specified amount; and

(ii) "Floor Amount" means the greatest pre-tax amount of Potential Parachute Payments that could be paid to Executive without causing Executive to (become liable for any Excise Taxes in connection therewith; and

(iii) "After-Tax Floor Amount" means the After-Tax Amount of the Floor Amount.

ARTICLE IX.

MISCELLANEOUS

9.1 Approvals. The Companies represent and warrant to Executive they have taken all corporate action necessary to authorize this Agreement.

9.2 No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action to mitigate the amounts payable to Executive under any of the provisions of this Agreement, nor shall the amount of any payment hereunder be reduced by any compensation earned as a result of Executive's employment by another employer, except that any continued welfare benefits provided for by Section 6.3(d) shall not duplicate any benefits that are provided to Executive and his family by such other employer and shall be secondary to any coverage provided by such other employer.

The Companies' obligation to make the payments provided for in this Agreement and otherwise perform the obligations hereunder shall not (unless Executive is terminated for Cause) be affected by any circumstances, including set-off, counterclaim, recoupment, defense or other claim, right or action which the Companies may have against Executive.

9.3 Enforcement.

(a) The Company shall promptly reimburse Executive for all attorneys' fees, costs and expenses incurred by Executive in connection with the negotiation, execution and delivery of this agreement, up to a maximum of $18,000. If Executive incurs legal, accounting, expert witness or other fees, costs or expenses (including arbitration fees, costs or expenses) in an effort to secure, preserve, establish entitlement to, or obtain compensation or benefits under this Agreement, the Company shall promptly reimburse Executive for such fees, costs and expenses whether or not Executive is successful;

provided, however, that no reimbursement shall be made of such expenses if Executive's assertion of rights was in bad faith and Executive does not prevail (after exhaustion of all available judicial remedies).

(b) If the Companies fail to pay any amount provided under any provision of this Agreement when due, the Executive shall be entitled to interest, compounded monthly, on such amount at a rate equal to the lesser of (i) (A) the highest rate of interest charged by the relevant Company's principal lender on its revolving credit agreements, or (B) in the absence of such a lender, the prime commercial lending rate announced by The Wall Street Journal in effect from time to time during the period of such nonpayment, or (ii) the highest legally-permissible interest rate allowed to be charged under applicable law.

9.4 Indemnification and Insurance. The Executive shall be indemnified and held harmless by the Companies to the greatest extent permitted under applicable Iowa law as the same now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits a Company to provide broader indemnification than was permitted prior to such amendment) and the Companies' respective by-laws as such exist on the Agreement Date if the Executive was, is, or is threatened to be, made a party to any pending, completed or threatened action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that the Executive is or was, or had agreed to become, a director, officer, employee, agent, or fiduciary of a Company or any other entity which the Executive is or was serving at the request of a Company ("Proceeding"), against all expenses (including all reasonable attorneys' fees) and all claims, damages, liabilities and losses incurred or suffered by the Executive or to which the Executive may become subject for any reason. A Proceeding shall not include any proceeding to the extent it concerns or relates to a matter described in Section 9.3(a). Upon receipt from Executive of (i) a written request for an advancement of expenses, which Executive reasonably believes will be subject to indemnification hereunder and (ii) a written undertaking by Executive to repay any such amounts if it shall ultimately be determined that Executive is not entitled to indemnification under this Agreement or otherwise, the Companies shall advance such expenses to Executive or pay such expenses for Executive, all in advance of the final disposition of any such matter. During Executive's employment and thereafter, Companies shall provide Executive with coverage under a director's and officer's liability insurance policy in amounts no less than, and on terms no less favorable than, those provided to senior executive officers and directors of the Companies on the Agreement Date and in amounts no less than, and on terms no less favorable than those, as provided to senior executive officers and directors of the Companies from time to time.

9.5 Cooperation With Regard to Litigation. The Executive agrees to cooperate with the Companies during his employment with any of the Companies (whether or not during the Employment Period) and thereafter (including following Executive's termination of employment for any reason, whether or not pursuant to this Agreement) by making himself reasonably available to testify on behalf of the Companies or their Affiliates, in any action, suit or proceeding, whether civil, criminal, administrative, or investigative and to assist each Company or any of its Affiliates in any such action, suit, or proceeding by providing information and

meeting and consulting with the Board of such Company or Affiliate or counsel or representatives or counsel to the Company or its Affiliates, as reasonably requested by the Board or such counsel. The Executive shall be entitled to reimbursement for any expenses (including legal fees) reasonably incurred by the Executive in connection with his compliance with the foregoing covenant; provided, however, that during the Employment Period the Executive shall not be reimbursed for his time spent in connection with his compliance with the foregoing covenant. The Companies agree to pay Executive a per diem of $3,500 per day for each day of service (including travel days) performed by Executive in accordance with this Section after Executive is no longer employed by the Companies.

9.6 Beneficiary. If Executive dies prior to receiving all of the amounts payable to him in accordance with the terms and conditions of this Agreement, such amounts shall be paid to the beneficiary ("Beneficiary") designated by Executive in writing to the Company during his lifetime, or if no such Beneficiary is designated, to Executive's estate. Such payments shall be made in a lump sum to the extent so payable and, to the extent not payable in a lump sum, in accordance with the terms of this Agreement. Such payments shall not be less than the amount payable to Executive as if Executive had lived to the date of payment and were the payee. Executive, without the consent of any prior Beneficiary, may change his designation of Beneficiary or Beneficiaries at any time or from time to time by submitting to the Company a new designation in writing.

9.7 Assignment; Successors. This Agreement is personal to Executive and he may not assign his duties or obligations under it. No Company may assign its respective rights and obligations under this Agreement without the prior written consent of Executive, except to a successor to the Company's business which expressly assumes the Company's obligations hereunder in writing. This Agreement shall be binding upon and inure to the benefit of Executive, his estate and Beneficiaries, the Companies and their successors and permitted assigns. Each Company shall require any successor to all or substantially all of the business and/or assets of such Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as such Company would be required to perform if no such succession had taken place.

9.8 Non-alienation. Except as is otherwise expressly provided herein, benefits payable under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, prior to actually being received by Executive, and any such attempt to dispose of any right to benefits payable hereunder shall be void.

9.9 Severability. If all or any part of this Agreement is declared to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of this Agreement not declared to be unlawful or invalid. Any provision so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such provision to the fullest extent possible while remaining lawful and valid.

9.10 Amendment; Waiver. This Agreement shall not be amended or modified except by written instrument executed by Mutual and Executive. A waiver of any term, covenant or

condition contained in this Agreement shall not be deemed a waiver of any other term, covenant or condition, and any waiver of any default in any such term, covenant or condition shall not be deemed a waiver of any later default thereof or of any other term, covenant or condition.

9.11 Arbitration, Any dispute, controversy or claim arising out of or in connection with or relating to this Agreement or any breach or alleged breach thereof shall be submitted to and settled by binding arbitration in Des Moines, Iowa, in accordance with the Commercial Arbitration Rules of the American Arbitration Association (or at any other place or under any other form of arbitration mutually acceptable to the parties so involved). Any dispute, controversy or claim submitted for resolution shall be submitted to three (3) arbitrators, each of whom is a nationally recognized executive compensation specialist. The Company involved in the dispute, controversy or claim, or Mutual if more than one Company is so involved, shall select one arbitrator, the Executive shall select one arbitrator and the third arbitrator shall be selected by the first two arbitrators. Any award rendered shall be final and conclusive upon the parties and a judgment thereon may be entered in the highest court of a forum, state or federal, having jurisdiction. The expenses of the arbitration shall be borne according to Section 9.3, except that in the discretion of the arbitrators any award may include the fees and costs of a party's attorneys if the arbitrator expressly determines that the party against whom such award is entered has caused the dispute, controversy or claim to be submitted to arbitration in bad faith or as a dilatory tactic. No arbitration shall be commenced after the date when institution of legal or equitable proceedings based upon such subject matter would be barred by the applicable statute of limitations. Notwithstanding anything to the contrary contained in this Section 9.11 or elsewhere in this Agreement, either party may bring an action in the Iowa District Court for Polk County, or the United States District Court for the Southern District of Iowa, if jurisdiction there lies, in order to maintain the status quo ante of the parties. The "status quo ante" is defined as the last peaceable, uncontested status between the parties. However, neither the party bringing the action nor the party defending the action thereby waives its right to arbitration of any dispute, controversy or claim arising out of or in connection or relating to this Agreement. Notwithstanding anything to the contrary contained in this Section 9.11 or elsewhere in this Agreement, either party may seek relief in the form of specific performance, injunctive or other equitable relief in order to enforce the decision of the arbitrator. The parties agree that in any arbitration commenced pursuant to this Agreement, the parties shall be entitled to such discovery (including depositions, requests for the production of documents and interrogatories) as would be available in a federal district court pursuant to Rules 26 through 37 of the Federal Rules of Civil Procedure. In the event that either party fails to comply with its discovery obligations hereunder, the arbitrator(s) shall have full power and authority to compel disclosure or impose sanctions to the full extent of Rule 37, Fed. R. Civ. P.

9.12 Notices. All notices hereunder shall be in writing and delivered by hand, by nationally-recognized delivery service that guarantees overnight delivery, or by first-class, registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to a Company, to: Principal Mutual Holding Company
711 High Street
Des Moines, Iowa 50392
Attention: Karen Shaff
Facsimile No.: (515) 235-9852

With copy to: Pamela Baker, Esq.
Sonnenschein Nath & Rosenthal
8000 Sears Tower
Chicago, Illinois 60606
Facsimile No.: (312) 876-7934

If to Executive, to: (at his most recent home address or facsimile number on file with the Company)

With copy to: Susan J. Daley
Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Facsimile No.: (312) 715-4800

Either party may from time to time designate a new address by notice given in accordance with this Section. Notice shall be effective when actually received by the addressee.

9.13 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

9.14 Captions. The captions of this Agreement are not a part of the provisions hereof and shall have no force or effect.

9.15 Entire Agreement. This Agreement forms the entire agreement between the parties hereto with respect to the subject matter contained in the Agreement and shall supersede all prior agreements, promises and representations regarding employment, compensation, severance or other payments contingent upon termination of employment, whether in writing or otherwise.

9.16 Applicable Law, This Agreement shall be interpreted and construed in accordance with the laws of the State of Iowa, without regard to its choice of law principles.

9.17 Survival of Executive's Rights. All of Executive's rights hereunder, including his rights to compensation and benefits, and his obligations under Article VIII hereof, shall survive the termination of Executive's employment or the termination of this Agreement.

9.18 Joint and Several Liability. The obligations of the Companies to Executive under this Agreement shall be joint and several.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

PRINCIPAL MUTUAL HOLDING COMPANY

By: /s/ DAVID J. DRURY

Its: Chairman

PRINCIPAL LIFE INSURANCE COMPANY

By: /s/ DAVID J. DRURY

Its: Chairman

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ DAVID J. DRURY

Its: Chairman

PRINCIPAL FINANCIAL SERVICES, INC.

By: /s/ DAVID J. DRURY

Its: Chairman

J. BARRY GRISWELL

/s/ J. BARRY GRISWELL

EXHIBIT 10.8

CHANGE OF CONTROL SUPPLEMENT AND AMENDMENT TO EMPLOYMENT AGREEMENT

FOR J. BARRY GRISWELL

TABLE OF CONTENTS

		PAGE
Article I.	Certain Definitions	1
1.1	"Accrued LTIP Bonus"	1
1.2	"Accrued Obligations"	1
1.3	"Annual Performance Period"	2
1.4	"Annualized Target LTIP Bonus"	2
1.5	"Article"	2
1.6	"Beneficial Owner"	2
1.7	"Board"	2
1.8	"Bonus Plan"	2
1.9	"Cause"	2
1.10	"Change of Control"	2
1.11	"Company"	3
1.12	"Company Certificate"	3
1.13	"Consummation Date"	3
1.14	"Continuity of Ownership"	3
1.15	"Demutualization"	4
1.16	"Effective Date"	4
1.17	"Employment Agreement"	4
1.18	"Exchange Act"	4
1.19	"Excise Taxes"	4
1.20	"Good Reason"	4
1.21	"Gross-up Multiple"	4
1.22	"Gross-up Payment"	4
1.23	"Imminent Control Change"	4
1.24	"Imminent Control Change Period"	5
1.25	"including"	5
1.26	"IRS"	5
1.27	"IRS Claim"	5
1.28	"LTIP Target Award"	5
1.29	"LTIP Outstanding Award"	6
1.30	"Lump Sum Value"	6
1.31	"Maximum Annuity"	6
1.32	"Merger of Equals"	6
1.33	"Merger of Equals Cessation Date"	7
1.34	"Mutual Incumbent Directors"	7
1.35	"New LTIP"	7
1.36	"Notice of Consideration"	7
1.37	"Plans"	7
1.38	"Post-Change Employment Period"	7
1.39	"Post-Merger of Equals Period"	7
1.40	"Potential Parachute Payment"	7
1.41	"Pro-rata Annual Bonus"	7
1.42	"Pro-rata LTIP Bonus	8

TABLE OF CONTENTS
(CONTINUED)

		PAGE
1.44	"Refund Claim"	9
1.45	"Reorganization Transaction"	9
1.46	"Restricted Shares"	9
1.47	"SEC"	9
1.48	"SEC Person"	9
1.49	"Section"	9
1.50	"SERP"	9
1.51	"Stock Options"	9
1.52	"Supplement Date"	9
1.53	"Supplement Term"	9
1.54	"Surviving Corporation"	9
1.55	"Target Annual Bonus"	10
1.56	"Taxes"	10
1.57	"Termination Date"	10
1.58	"Termination of Employment"	10
1.59	"25% Owner"	10
1.60	"Voting Securities"	10
Article II.	Post-Change Employment Period and Imminent Control Change Period	11
2.1	Position and Duties	11
2.2	Compensation	11
2.3	Stock Incentive Awards	12
2.4	Unfunded Deferred Compensation	13
2.5	Pro-rata Annual Bonus	13
2.6	Pro-rata LTIP Bonus	14
Article III.	Termination of Employment	14
3.1	Disability	14
3.2	Death	15
3.3	Termination for Cause	15
3.4	Good Reason	17
Article IV.	Company's Obligations Upon Certain Terminations of Employment	19
4.1	Termination During the Post-Change Employment Period	19
4.2	Termination During a Post-Merger or Equals Period	22
4.3	Termination During an Imminent Control Change Period (with no Change of Control)	23
4.4	Termination During an Imminent Control Change Period (which Culminates in a Change of Control)	24
4.5	Waiver and Release	25
4.6	Termination by the Company for Cause	25

TABLE OF CONTENTS
(CONTINUED)

		PAGE
4.7	Termination by Executive Other Than for Good Reason	26
4.8	Termination by the Company for Disability	26
4.9	If upon Death	26
Article V.	Certain Additional Payments by the Company	27
5.1	Gross-Up Payment	27
5.2	Limitation on Gross-Up Payments	28
5.3	Additional Gross-up Amounts	29
5.4	Amount Increased or Contested	29
5.5	Refunds	31
Article VI.	Expenses, Interest and Dispute Resolution	31
6.1	Legal Fees and Other Expenses	31
6.2	Interest	32
6.3	Binding Arbitration	32
Article VII.	No Set-off or Mitigation; No Double Payment	33
7.1	No Set-off by Company	33
7.2	No Mitigation	33
7.3	No Double Payment	33
Article VIII.	Non-Exclusivity of Rights	33
8.1	Waiver of Certain Other Rights	33
8.2	Other Rights	34
8.3	No Right to Continued Employment	34
Article IX.	Miscellaneous	34
9.1	No Assignability	34
9.2	Successors	34
9.3	Payments to Beneficiary	34
9.4	Non-Alienation of Benefits	34
9.5	Severability	35
9.6	Amendments	35
9.7	Notices	35
9.8	Continuing Validity of Employment Agreement	35
9.9	Counterparts	36
9.10	Governing Law	36
9.11	Captions	36
9.12	Number and Gender	36

TABLE OF CONTENTS
(CONTINUED)

		PAGE
9.13	Tax Withholding	36
9.14	Waiver	36
9.15	Joint and Several Liability	36
9.16	Entire Agreement	37

CHANGE-OF-CONTROL SUPPLEMENT AND AMENDMENT TO EMPLOYMENT AGREEMENT

FOR

J. BARRY GRISWELL

THIS CHANGE OF CONTROL SUPPLEMENT and AMENDMENT TO EMPLOYMENT AGREEMENT ("Supplement and Amendment") dated as of October 19, 2000 (the "Supplement Date") is made by and among Principal Mutual Holding Company, an Iowa mutual holding company (together with all successors thereto, "Mutual"), Principal Financial Group, Inc., an Iowa corporation, Principal Financial Services, an Iowa corporation, and Principal Life Insurance Company, an Iowa corporation (together with all successors thereto, "Life") (each of the foregoing referred to individually as a "Company" or collectively as "Companies"), and J. BARRY GRISWELL ("Executive").

RECITALS

The Companies have determined that it is in the best interests of the Companies and their members, (and if, at the relevant time, any are stock companies, their stockholders) to assure that the Companies will have the continued service of Executive. The Companies also believe it is imperative to reduce the distraction of Executive that would result from the personal uncertainties caused by a pending or threatened change of control of Mutual, to encourage Executive's full attention and dedication to the Companies, and to provide Executive with compensation and benefits arrangements upon a change of control which ensure that the expectations of Executive will be satisfied and are competitive with those of similarly-situated businesses. This Supplement and Amendment is intended to accomplish these objectives, and to amend Executive's Employment Agreement with the Companies dated as of May 19,2000 (such agreement as amended from time to time, and any successors thereto, the "Employment Agreement") in order to coordinate it with certain provisions that apply in the event of a Change of Control or Imminent Control Change.

ARTICLE I.

CERTAIN DEFINITIONS

As used in this Supplement and Amendment, capitalized terms have the meaning specified in the Employment Agreement as amended from time to time, except as indicated below:

1.1 "Accrued LTIP Bonus" means the amount of any LTIP Bonus earned but either) deferred or not paid on or prior to the Effective Date, Merger of Equals Cessation Date, or Termination Date, as applicable.

1.2 "Accrued Obligations" means, as of any date, the sum of Executive's Accrued Base Salary, Accrued Annual Bonus, Accrued LTIP Bonus, any accrued but unpaid paid time off, and any other amounts and benefits which are then due to be paid or provided to Executive by the Company, but have not yet been paid or provided (as applicable).

1.3 "Annual Performance Period" -- see Section 2.2(b).

1.4 "Annualized Target LTIP Bonus" means, in respect of any Termination Date, an amount, based on the most recently granted LTIP Award for which the LTIP Performance Period has not expired or terminated (disregarding for this purpose the premature termination of any LTIP Performance Period that occurred on or after the Effective Date), calculated as follows:

(a) If the most recently granted LTIP Award was granted under the 1999 Long-Term Performance Plan, the projected target award (stated as a percentage of Base Salary) as calculated at the beginning of the three-year award cycle which Executive would have been entitled to receive with respect to such most recent allocation of performance units as if "Gain from Operations" and "Return on Equity" (as such terms are defined in the 1999 Long-Term Performance Plan) targets had been met.

(b) If the most recently granted LTIP Award was granted under a New LTIP under which consecutive LTIP Performance Periods end each 12 months, the Executive's LTIP Target Award with respect to such most recent grant.

(c) If the most recently granted LTIP Award was granted under a New LTIP under which consecutive LTIP Performance Periods end more or less frequently than each 12 months, the Executive's LTIP Target Award with respect to such most recent grant, multiplied by a fraction, the numerator of which is 12 and the denominator of which is the number of whole months between payments of LTIP Bonuses.

(d) If the Executive has no LTIP Awards outstanding with respect to which the LTIP Performance Period has not yet ended, the amount shall be zero.

1.5 "Article" means, unless the context otherwise requires, an article of this Supplement.

1.6 "Beneficial Owner" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

1.7 "Board" means the Board of Directors of Mutual or, from and after the effective date of a Reorganization Transaction, the Board of Directors of the Surviving Corporation.

1.8 "Bonus Plan" -- see Section 2.2(b).

1.9 "Cause" -- see Section 3.3.

1.10 "Change of Control" means, except as otherwise provided below, the occurrence of any one or more of the following:

(a) any SEC Person becomes the Beneficial Owner of 25% or more of the common stock of Mutual or of Voting Securities representing 25% or more of the combined voting power of all Voting Securities of Mutual (such an SEC Person, a "25% Owner"); or

(b) the Mutual Incumbent Directors (determined using the Supplement Date as the baseline date) cease for any reason to constitute at least a majority of the Board; or

(c) consummation of a merger, reorganization, consolidation, or similar transaction (any of the foregoing, a "Reorganization Transaction") where the Continuity of Ownership is not more than 60%; or

(d) approval by the members of Mutual, if at the relevant time Mutual is a mutual life insurance holding company, or approval by the stockholders of Mutual, if at the relevant time Mutual is a stock company, of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of Mutual or a plan of liquidation of Mutual.

Notwithstanding the foregoing, a Change of Control shall not occur merely as a result of (i) Demutualization, or (ii) an underwritten initial public offering of common stock of Mutual as filed with the SEC, unless such initial public offering results in any SEC Person becoming a 25% Owner. Notwithstanding the occurrence of any of the foregoing events, a Change of Control shall not occur with respect to Executive if, in advance of such event, Executive agrees in writing that such event shall not constitute a Change of Control.

1.11 "Company" - see the introductory paragraph to this Supplement.

1.12 "Company Certificate" -- see Section 5.4(a).

1.13 "Consummation Date" means the first date after an Imminent Control Change upon which an Effective Date occurs, provided, however that one of the following is satisfied:

(a) the Imminent Control Change has not lapsed; or

(b) the Imminent Control Change in effect upon such Effective Date is the last Imminent Control Change in a series of Imminent Control Changes unbroken by any period of time between the lapse of an Imminent Control Change and the occurrence of a new Imminent Control Change.

1.14 "Continuity of Ownership" of a stated percentage means

(a) if at the relevant time Mutual is a mutual life insurance holding company, the Persons who were the members of Mutual immediately before a Reorganization Transaction became, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of Voting Securities of the Surviving Corporation representing the stated percentage of the combined voting power of the then outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Person's ownership of Voting Securities of Mutual immediately before such Reorganization Transaction, and

(b) if at the relevant time Mutual is a stock company, the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of Mutual immediately before such Reorganization Transaction became, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of both the stated percentage of the then-outstanding common stock of the Surviving Corporation and Voting Securities representing the stated percentage of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in

substantially the same respective proportions as such Persons' ownership of the common stock and Voting Securities of Mutual immediately before such Reorganization Transaction.

1.15 "Demutualization," solely as used in this Supplement and Amendment, means the conversion of Mutual from a mutual life insurance company to a stock company (x) at least 50% of whose stockholders are persons who were members of Mutual immediately prior to such transaction or a trust or separate account holding the shares of Mutual for the benefit of such members or (y) owned by a corporation at least 50% of the shares of which are held by the persons or trust described under clause (x), excluding any such conversion that results in any SEC Person becoming a 25% Owner.

1.16 "Effective Date" means the date on which a Change of Control first occurs during the Supplement Term.

1.17 "Employment Agreement" - see the introductory paragraph of this Supplement and Amendment.

1.18 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

1.19 "Excise Taxes" -- see Section 5.1.

1.20 "Good Reason" -- see Section 3.4.

1.21 "Gross-up Multiple" -- see Section 5.1.

1.22 "Gross-Up Payment" -- see Section 5.1.

1.23 "Imminent Control Change" means, as of any date on or after the Supplement Date and prior to the Effective Date, the occurrence of any one or more of the following:

(a) Mutual enters into an agreement the consummation of which would constitute a Change of Control;

(b) Any SEC Person attempts to acquire 25% or more of the member interests in Mutual, as evidenced by filing or other certification of notice of such intent with any State's governmental agency established to regulate the insurance industry, which if consummated would constitute a Change of Control;

(c) After Demutualization, any SEC Person commences a "tender offer" (as such term is used in Section 14(d) of the Exchange Act) or exchange offer, which, if consummated, would result in a Change of Control; or

(d) After Demutualization, any SEC Person files with the SEC a preliminary or definitive proxy solicitation or election contest to elect or remove one or more members of the Board, which, if consummated or effected, would result in a Change of Control;

provided, however, that an Imminent Control Change will lapse and cease to qualify as an Imminent Control Change:

(i) With respect to an Imminent Control Change described in clause (a) of this definition, the date such agreement is terminated, cancelled or expires without a Consummation Date occurring;

(ii) With respect to an Imminent Control Change described in clause (b) of this definition, the date such filing or other certification is withdrawn, expires or is denied or otherwise rejected by the relevant state regulators without a Consummation Date occurring;

(iii) With respect to an Imminent Control Change described in clause (c) of this definition, the date such tender offer or exchange offer is withdrawn or terminates without a Consummation Date occurring;

(iv) With respect to an Imminent Control Change described in clause (d) of this definition, (1) the date the validity of such proxy solicitation or election contest expires under relevant state corporate law, or (2) the date such proxy solicitation or election contest culminates in a stockholder vote, in either case without a Consummation Date occurring; or

(v) The date a majority of the Mutual Incumbent Directors make a good faith determination that any event or condition described in clause (a), (b), (c) or (d) of this definition no longer constitutes an Imminent Control Change, provided that such determination may not be made prior to the six (6) month anniversary of the occurrence of such event.

Notwithstanding the foregoing, an Imminent Control Change shall not occur merely as a result of (A) planning, or filing or certifying an intent with any state's governmental agency established to regulate the insurance industry of a Demutualization application, or (B) the planned underwritten initial public offering of common stock of Mutual as filed with the SEC; provided, however, that such initial public offering is not expected to result in any SEC Person becoming a 25% Owner.

1.24 "Imminent Control Change Period" means the period commencing on the date of an Imminent Control Change (or the first Imminent Control Change in a series of Imminent Control Changes unbroken by any period of time between the lapse of an Imminent Control Change and the occurrence of a new Imminent Control Change) and ending on the Consummation Date, or if earlier, the date an Imminent Control Change lapses (without the prior or concurrent occurrence of a new Imminent Control Change).

1.25 "including" means including without limitation.

1.26 "IRS" means the Internal Revenue Service of the United States of America.

1.27 "IRS Claim" -- see Section 5.4.

1.28 "LTIP" means the 1999 Long-Term Performance Plan as amended from time to time.

1.29 "LTIP Award" means an incentive compensation opportunity granted under the LTIP or New LTIP.

11

1.30 "LTIP Performance Period" means any performance period designated in accordance with any LTIP or New LTIP approved by the Board of Life or any committee of the Board of Life.

1.31 "LTIP Target Award" means, in respect of any LTIP Award under a New LTIP, the amount which Executive would have been entitled to receive for the LTIP Performance Period corresponding to such LTIP Award if the performance goals established pursuant to such LTIP Award were achieved at the target level (currently 100%) as of the end of the LTIP Performance Period.

1.32 "LTIP Outstanding Award" - see the definition of "Pro-rata LTIP Bonus."

1.33 "Lump Sum Value" of an annuity payable pursuant to a defined benefit plan (whether or not qualified under Section 401(a) of the Code) means, as of a specified date, the present value of such annuity, as determined, as of such date, under generally accepted actuarial principles using (i) the applicable interest rate, mortality tables and other methods and assumptions that the Pension Benefit Guaranty Corporation ("PBGC") would use in determining the value of an immediate annuity on the Termination Date or (ii) interest rate and mortality assumptions are no longer published by the PBGC, interest rate and mortality assumptions determined in a manner as similar as practicable to the manner by which the PBGC's interest rate and mortality assumptions were determined immediately prior to the PBGC's cessation of publication of such assumptions; provided, however, that if such defined benefit plan provides for a lump sum distribution and such lump-sum distribution either (x) is the only payment method available under such plan or (y) provides for a greater amount than the Lump Sum Value of the Maximum Annuity available under such plan, then "Lump Sum Value" shall mean such lump sum amount.

1.34 "Maximum Annuity" means, in respect of a defined benefit plan (whether or not qualified under Section 401(a) of the Code), an annuity computed in whatever manner permitted under such plan (including frequency of annuity payments, attained age upon commencement of annuity payments, and nature of surviving spouse benefits, if any) that yields the greatest Lump Sum Value.

1.35 "Merger of Equals" means a Change of Control consisting of, as of any date on or after the Supplement Date, a Reorganization Transaction that, notwithstanding the fact that such transaction also qualifies as a Change of Control, satisfies all of the following:

(a) consummation of such Reorganization Transaction results in Continuity of Ownership of at least 40%, but not more than 60%; and

(b) an SEC Person does not become a 25% Owner; and

(c) Mutual Incumbent Directors (determined using the date immediately preceding the Effective Date as the baseline date), throughout the period beginning on the Effective Date and ending on the second anniversary of the Effective Date, continue to constitute not less than

(i) a majority of the Board, if subsection (a) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 50%, but not more than 60%; or

(ii) one (1) member less than a majority of the Board, if subsection (a) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 40%, but less than 50%; and

(d) the person who was the Chief Executive Officer of Mutual immediately prior to the first to occur of the (x) the day prior to the beginning of the Imminent Control Change Period or (y) the day prior to the Effective Date shall serve as the Chief Executive Officer of the Surviving Corporation at all times during the period commencing on the Effective Date and ending on the first anniversary of the Effective Date;

provided, however, that a Merger of Equals shall cease to be considered a Merger of Equals and shall instead qualify as a Change of Control that is not a Merger of Equals from and after the first date (the "Merger of Equals Cessation Date") as of which:

(i) during the Post-Change Employment Period the conditions of any of clause (b) or clause (c) or clause (d) of this definition shall not be satisfied; or

(ii) prior to the first anniversary of the Effective Date, the Company shall make a filing with the SEC, issue a press release, or make a public announcement to the effect that Mutual or the Surviving Corporation is seeking or intends to seek a replacement for its Chief Executive Officer, whether such replacement is to become effective before or after such first anniversary.

1.36 "Merger of Equals Cessation Date" - see the definition of "Merger of Equals."

1.37 "Mutual Incumbent Directors" means, as of any specified baseline date, individuals then serving as members of the Board who were members of the Board as of the date immediately preceding such baseline date; provided that any subsequently-appointed or elected member of the Board whose election, or nomination for election by numbers or by stockholders of Mutual if Mutual is a stock company at the relevant time, or stockholders or members, as applicable, of the Surviving Corporation, as applicable, was approved by a vote or written consent of at least a majority of the directors then comprising the Mutual Incumbent Directors shall also thereafter be considered a Mutual Incumbent Director, unless the initial assumption of office of such subsequently-elected or appointed director was in connection with an Imminent Control Change, but only if such Imminent Control Change was triggered by the occurrence of an event described in subsection (d) of the definition of Imminent Control Change.

1.38 "New LTIP" - see definition of "Pro-rata LTIP Bonus."

1.39 "Notice of Consideration" -- see Section 3.3(a)(ii)(2).

1.40 "Plans" means plans, programs, policies, practices or procedures of the Company.

1.41 "Post-Change Employment Period" means the period commencing on the Effective Date and ending on the second anniversary of the Effective Date.

1.42 "Post-Merger of Equals Period" means the period commencing on an Effective Date of a Merger of Equals and ending on the first to occur of the Merger of Equals Cessation Date or the end of the Post-Change Employment Period.

1.43 "Potential Parachute Payment" -- see Section 5.1.

1.44 "Pro-rata Annual Bonus" on and after the Effective Date means, notwithstanding Section 1.32 of the Employment Agreement, an amount equal to the product of Executive's Target Annual Bonus (for the fiscal year in which the Effective Date, Merger of Equals Cessation Date or Termination Date occurs, as applicable, but disregarding any reduction in such Target Annual Bonus that would qualify as Good Reason if Executive were to terminate employment on account thereof) multiplied by a fraction, the numerator of which equals the number of days from and including the first day of such fiscal year through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals 365.

1.45 "Pro-rata LTIP Bonus" means an amount equal to the sum of the following amounts, calculated separately for each LTIP Award for which the LTIP Performance Period has not ended as of the Effective Date, Merger of Equals Cessation Date, or Termination Date, as applicable:

(a) For any LTIP Award that was granted under the LTIP, the sum of the following amounts (recalculated as of the applicable date for each such LTIP Award):

(i) Executive's LTIP Outstanding Award (as defined below) with respect to any LTIP Performance Period which began prior to the calendar year of the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable; and

(ii) Executive's LTIP Outstanding Award (as defined below) with respect to any LTIP Performance Period which began in the calendar year in which the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, occurs, multiplied by a fraction, the numerator of which equals the number of days from and including the first day of such calendar year through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals 365.

(b) For any LTIP Award that was granted under a new or successor plan replacing or supplementing the LTIP ("New LTIP"), an amount calculated by adding together the amounts determined by multiplying each LTIP Target Award by a fraction, the numerator of which equals the number of days from and including the beginning of the LTIP Performance Period applicable to such LTIP Target Award through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals the aggregate number of days in such LTIP Performance Period.

"LTIP Outstanding Award" means, in respect of any LTIP Award, the amount which Executive would have been entitled to receive for the LTIP Performance Period applicable to such LTIP Award, which amount is equal to the product of (x) the number of Initial Performance Units (as defined in the LTIP) multiplied by (y) an amount determined by applying the formula described as the "Start Imputed Value" in the LTIP, but determining "Average Return on Equity" and "Equity of the consolidated Principal Financial Group" as of December 31 of the year preceding the year in which the applicable determination date occurs, and not taking into account any value for any unfinished year in the award cycle, not taking into account any performance scores, multipliers or adjustment factors, and not prorated for any unfinished year in the award cycle.

1.46 "Refund Claim" -- see Section 5.4.

1.47 "Reorganization Transaction" -- see clause (c) of the definition of "Change of Control."

1.48 "Restricted Shares" -- see Section 2.3.

1.49 "SEC" means the United States Securities and Exchange Commission.

1.50 "SEC Person" means any person (as such term is used in Rule 13d-5 of the SEC under the Exchange Act) or group (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than an Affiliate or any employee benefit plan (or any related trust) of Mutual or any of its Affiliates.

1.51 "Section" means, unless the context otherwise requires, a section of this Supplement and Amendment.

1.52 "SERP" means a supplemental executive retirement Plan that is not qualified under Section 401(a) of the Code, including the Supplemental Executive Retirement Plan for Employees (or any successor plan).

1.53 "Stock Options" -- see Section 2.3.

1.54 "Supplement Date" -- see the introductory paragraph of this Supplement and Amendment.

1.55 "Supplement Term" means the period commencing on the Supplement Date and ending on the latest of (a) the third anniversary of the Supplement Date, (b) the second anniversary of an Effective Date occurring within one year of the Supplement Date, or (c) last day the Employment Agreement is in effect. An Expiration Notice with respect to the Employment Agreement given on or after the first anniversary of the Supplement Date shall apply equally to this Supplement and Amendment. Notwithstanding the foregoing, if an Effective Date or an Imminent Control Change occurs before the Expiration Date specified in an Expiration Notice, then such Expiration Notice shall be void and of no further effect; provided, however, if such Imminent Control Change does not culminate in a Consummation Date, then such Expiration Notice shall be reinstated and the Supplement and Amendment and Employment

Agreement shall expire on the date originally specified as the Expiration Date, or if later, the date the Imminent Control Change lapses.

1.56 "Surviving Corporation" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate voting power of such resulting corporation, (if such corporation is a stock company at the relevant time), or of the mutual life insurance holding company policies (if such corporation is a mutual life insurance holding company at the relevant time) are directly or indirectly owned by another corporation, such other corporation.

1.57 "Target Annual Bonus," solely for purposes of this Supplement and Amendment, means, as of any date, an amount equal to the product of Base Salary determined as of such date multiplied by the percentage of such Base Salary to which Executive would have been entitled immediately prior to such date under any Bonus Plan for the Annual Performance Period for which such Annual Bonus is awarded if the performance goals established pursuant to such Bonus Plan were achieved at the 100% level as of the end of the Annual Performance Period; provided, however, that any reduction in Executive's Base Salary or Annual Bonus that would qualify as Good Reason shall be disregarded for purposes of this definition.

1.58 "Taxes" means the incremental federal, state, local and foreign income, employment, excise and other taxes payable by Executive with respect to any applicable item of income.

1.59 "Termination Date" means the date of the receipt of the Notice of Termination by Executive (if such Notice is given by the Company) or by the Company (if such Notice is given by Executive), or any later date, not more than 15 days after the giving of such Notice, specified in such notice as of which Executives' employment shall be terminated; provided, however, that:

(i) if Executive's employment is terminated by reason of death or Disability, the Termination Date shall be the date of Executive's death or the date of Disability (as described in Section 3.1(b)), as applicable; and

(ii) if no Notice of Termination is given, the Termination Date shall be the last date on which Executive is employed by the Company.

1.60 "Termination of Employment" means any termination of Executive's employment with the Company, whether such termination is initiated by the Company or by Executive.

1.61 "25% Owner" -- see paragraph (a) of the definition of "Change of Control."

1.62 "Voting Securities" for purposes of this Supplement and Amendment means, notwithstanding Section 1.42 of the Employment Agreement (defining Voting Securities), (a) with respect to a corporation, securities of such corporation that are entitled to vote generally in the election of directors of such corporation, and (b) with respect to a mutual life insurance company or mutual life insurance holding company, policies of such company entitled to vote generally in the ejection of directors of such company.

ARTICLE II.

POST-CHANGE EMPLOYMENT PERIOD AND IMMINENT CONTROL CHANGE PERIOD

2.1 Position and Duties.

(a) Change of Control and Merger of Equals. During the Post-Change Employment Period (including any portion thereof that qualifies as a Merger of Equals), the provisions of Article II of the Employment Agreement shall continue to apply, except that Executive's services shall be performed at the location where Executive was employed immediately before the Effective Date (or if the Effective Date was the Consummation Date of an Imminent Control Change, before the beginning of such Imminent Control Change Period) or any other location no more than 50 miles Corn such former location.

(b) Imminent Control Change Period. During any Imminent Control Change Period, the provisions of Article II of the Employment Agreement shall continue to apply.

2.2 Compensation.

(a) Base Salary During an Imminent Control Change Period and the Post-Change Employment Period (including any portion thereof that qualifies as a Merger of Equals), the provisions of Section 4.1 of the Employment Agreement (Salary) shall continue to apply. Any increase in Base Salary shall not limit or reduce any other obligation of the Company to Executive under this Supplement and Amendment.

(b) Annual Bonus.

(i) Change of Control and Merger of Equals. During the Post-Change Employment Period (including any portion thereof that qualifies as a Merger of Equals), the provisions of Section 4.2 of the Employment Agreement (Annual Bonus) shall continue to apply, unless modified by Section 2.2(b)(ii) below, provided that on and after the Effective Date, Executive's bonus opportunity shall be no less than and target performance goals shall be no higher than those in effect immediately prior to the Effective Date for each Annual Performance Period which ends during the Post-Change Employment Period. "Annual Performance Period" means each period of time designated in accordance with any annual bonus arrangement, including the Principal Incentive Pay Plan ("Prin Pay") and any successor thereto, (a "Bonus Plan") which is based upon performance and approved by the Board or any committee of the Board, or in the absence of any Bonus Plan or any such designated period of time, each calendar year.

(ii) Imminent Control Change Period. During an Imminent Control Change Period, the provisions of Section 4.2 of the Employment Agreement (Annual Bonus) shall continue to apply; provided, however, that if the Imminent Control Change Period culminates in a Consummation Date, then, in determining

whether the Executive's Termination of Employment is for "Good Reason" shall be determined as though the provisions of Section 2.2(b)(i) applied commencing with the first day of the Imminent Control Change Period.

(c) Other Compensation and Benefits.

(i) Imminent Control Change Period, Post-Change Employment Period, Merger of Equals. During an Imminent Control Change Period and the Post-Change Employment Period (including any portion thereof that qualifies as a Merger of Equals) the provisions of Sections 4.3 (Long-Term Incentive Plan Bonus and Other Incentive Compensation), 4.4 (Savings and Retirement Plans) and Article V (Other Benefits) of the Employment Agreement shall continue to apply; provided that on and after the Effective Date, Executive's compensation and benefits shall not be materially less favorable, in the aggregate, than the most favorable compensation and benefits provided by the Company to Executive (including any such compensation and benefits provided under Plans) at any time during the 90-day period immediately before the Effective Date. In addition, during the Post-Change Employment Period (including any portion thereof that qualifies as a Merger of Equals):

(1) LTIP Awards. LTIP Awards shall be granted to Executive at least as frequently as LTIP Awards were granted during the three-year period immediately preceding the Effective Date, with target payments no less than the average (expressed as a percentage of Executive's Base Salary in effect at the beginning of the applicable Performance Period) of the Executive's LTIP Awards outstanding immediately prior to the Effective Date, with target performance goals substantially comparable to the target performance goals under Executive's LTIP Awards outstanding on the Effective Date; and

(2) Office and Support Staff. Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance in accordance with the most favorable Plans in effect prior to the Change of Control or Imminent Control Change.

2.3 Stock Incentive Awards.

(a) Change of Control that is not a Merger of Equals. On the Effective Date, except as provided in Section 2.3 (b) or (c) below, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding stock options, stock appreciation rights, or similar incentive awards (collectively, "Stock Options") and (ii) become fully vested in all shares of restricted stock or restricted stock units and similar awards ("Restricted Shares"). Notwithstanding the foregoing, if the Effective Date is a Reorganization Transaction and if so provided under the agreement pursuant to which the Reorganization Transaction is effected, then all Executive Stock Options shall (x) be extinguished for such consideration as is provided for vested options under such agreement or (y) be converted into options to purchase the stock of the Surviving Corporation, and such converted options shall be

subject to the same option terms and restrictions as those applicable on the Effective Date.

(b) Merger of Equals. Section 2.3(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.3(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date wherever such term appears.

(c) Imminent Control Change Period. Section 2.3(a) and (b) shall not apply during an Imminent Control Change Period.

2.4 Unfunded Deferred Compensation.

(a) Change of Control that is not a Merger of Equals. On the Effective Date, except as provided in Section 2.4(b) or (c) below, Executive shall become fully vested in all benefits previously accrued under any deferred compensation Plan (including a SERP and any defined contribution excess plan) that is not qualified under Section 401(a) of the Code. To the extent not so provided under such non-qualified plan, within ten business days after the Effective Date, the Company shall pay or cause to be paid to Executive a lump-sum cash amount equal to:

(i) the sum of the Lump-Sum Values of all Maximum Annuities that are payable pursuant to all such non-qualified plans that are defined benefit Plans, plus

(ii) the sum of Executive's account balances under all such non-qualified plans that are defined contribution Plans.

(b) Merger of Equals. Section 2.4(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.4(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date wherever such term appears.

(c) Imminent Control Change Period. Section 2.4(a) and (b) shall not apply during an Imminent Control Change Period.

Executive shall have the opportunity to waive the accelerated vesting and lump-sum payment at any time prior to the earlier of (i) the 15th day after the date of an Imminent Control Change or (ii) the 30th day prior to a Change of Control which is not preceded by an Imminent Control Change; provided, however, that in no event shall the waiver be allowed on the Effective Date or thereafter.

2.5 Pro-rata Annual Bonus.

(a) Change of Control that is not a Merger of Equals. Except as provided in Section 2.5(b) or (c) below, to the extent not so provided by the Bonus Plan, the Company shall pay or cause to be paid to Executive within ten business days after the Effective Date, a lump-sum cash payment equal to the Pro-rata Annual Bonus, in

satisfaction of the Company's obligations under the Bonus Plan for periods prior to the Effective Date.

(b) Merger of Equals. Section 2.5(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.5(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date.

(c) Imminent Control Change Period. Section 2.5(a) and (b) shall not apply during an Imminent Control Change Period.

2.6 Pro-rata LTIP Bonus.

(a) Change of Control that is not a Merger of Equals. Except as provided in Section 2.6(b) or (c) below, to the extent not so provided by the LTIP or New LTIP, as applicable, the Company shall pay or cause to be paid to Executive, within ten business days after the Effective Date a lump-sum cash payment equal to the sum of (i) the Pro-rata LTIP Bonus and (ii) all Accrued LTIP Bonuses, in satisfaction of the Company's obligations under the LTIP and New LTIP for periods prior to the Effective Date.

(b) Merger of Equals. Section 2.6(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.6(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date.

(c) Imminent Control Change Period. Section 2.6(a) and (b) shall not apply during an Imminent Control Change Period.

ARTICLE III.

TERMINATION OF EMPLOYMENT

3.1 Disability. The provisions of this Section 3.1 and Section 4.8 shall supersede the provisions of Section 1.17 of the Employment Agreement (definition of "Disability") and Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability) during the Post-Change Employment Period or any Imminent Control Change Period but only insofar as such Section 6.2 applies to termination for Disability.

(a) During the Post-Change Employment Period or any Imminent Control Change Period, the Company may terminate Executive's employment at any time because of Executive's Disability by giving Executive or his legal representative, as applicable, (i) written notice in accordance with Section 9.7 of the Company's intention to terminate Executive's employment pursuant to this Section and (ii) a certification of Executive's Disability by a physician selected by the Company or its insurers, subject to the consent of Executive or Executive's legal representative, which consent shall not be unreasonably withheld or delayed. Executive's employment shall terminate effective on the 30th day after Executive's receipt of such notice (which such 30th day shall be deemed to be the date of the Disability) unless, before such 30th day, Executive shall have resumed the full-time performance of Executive's duties.

(b) "Disability" means any medically determinable physical or mental impairment that has lasted for a continuous period of not less than six months and can be expected to be permanent or of indefinite duration, and that renders Executive unable to perform the duties required under this Supplement and Amendment.

3.2 Death. Executive's employment shall terminate automatically upon Executive's death during the Post-Change Employment Period or Imminent Control Change Period.

3.3 Termination for Cause.

(a) Post-Change Employment Period. During the Post-Change Employment Period (including any portion thereof that qualifies as a Post-Merger of Equals Period), the Company may terminate Executive's employment for Cause solely in accordance with all of the substantive and procedural provisions of this Section 3.3(a). Section 1.11 of the Employment Agreement (definition of "Cause") and Section 6.1 of the Employment Agreement (Termination for Cause or Other than for Good Reason, etc.) shall be inapplicable during any Post-Change Employment Period, insofar as it relates to the material contained in this Section 3.3 and Section 4.6, except as otherwise provided herein.

(i) Definition of Cause. For purposes of this section 3.3(a), "Cause" has the following meaning:

(1) Executive's conviction of, plea of guilty to, or plea of nolo contendere to a felony or misdemeanor (other than a traffic-related felony or misdemeanor) that involves fraud, dishonesty or moral turpitude;

(2) Executive's willful and intentional material misconduct in the performance or gross neglect of his duties that results in substantial financial detriment to a Company or any Affiliate;

(3) Executive's habitual neglect of duties (other than resulting from Executive's incapacity due to physical or mental illness other than habitual abuse of or addiction to alcohol or controlled substances) which results in substantial financial detriment to any of the Companies or any Affiliate; or

(4) Executive's willful and intentional material breach of the Employment Agreement or this Supplement and Amendment;

provided, however, that for purposes of clauses (2), (3) and (4), Cause shall not include any one or more of the following:

(A) Executive's bad judgment

(B) Executive's negligence, other than Executive's habitual neglect of duties or gross negligence;

(C) any act or omission believed by Executive in good faith to have been in or not opposed to the interest of the Company (without intent of Executive to gain, directly or indirectly, a profit to which Executive was not legally entitled); or

(D) failure to meet performance goals, objectives or measures following good faith efforts to meet such goals, objectives or measures; and

further provided that, if a breach of the Employment Agreement or this Supplement and Amendment involved an act, or a failure to act, which was done, or omitted to be done, by Executive in good faith and with a reasonable belief that Executive's act, or failure to act, was in the best interests of the Company or was required by applicable law or administrative regulation, such breach shall not constitute Cause if, within 30 days after Executive is given written notice of such breach that specifically refers to this Section, Executive cures such breach to the fullest extent that it is curable.

(ii) Procedural Requirements for Termination for Cause. The Company shall strictly observe each of the following procedures:

(1) Board Meeting. A meeting of the Board shall be called for the stated purpose of determining whether Executive's acts or omissions constitute Cause and, if so, whether to terminate Executive's employment for Cause.

(2) Notice of Consideration, Not less than 30 days prior to the date of such meeting the Company shall provide Executive and each member of the Board written notice (a "Notice of Consideration") of (x) a detailed description of the acts or omissions alleged to constitute Cause, (y) the date, time and location of such meeting of the Board, and (z) Executive's rights under clause (3) below.

(3) Opportunity to Present Response. Executive shall have the opportunity with or without counsel, at Executive's election, an opportunity to be heard and present arguments and evidence on Executive's behalf at such a meeting and / or to present to the Board a written response to the Notice of Consideration.

(4) Cause Determination. Executive's employment may be terminated for Cause only if (x) the acts or omissions specified in the Notice of Consideration did in fact occur and do constitute Cause as defined in this Section, (y) the Board makes a specific determination to such effect and to the effect that Executive's employment should be terminated for Cause ("Cause Determination") and (z) the Company thereafter provides Executive with a Notice of Termination which specifies in specific detail the basis of such Termination of Employment for Cause and which Notice shall be consistent with the reasons set forth

in the Notice of Consideration. The Cause Determination shall require the affirmative vote of at least 66-2/3% of the members of the Board.

(b) Imminent Control Change Period. Except as provided below, this Section 3.3 shall not apply during any Imminent Control Change Period. Instead, the terms of Section 6.1 of the Employment Agreement shall govern a termination of Executive for Cause during an Imminent Control Change Period. However, in the case of an Imminent Control Change Period that culminates in a Consummation Date, no termination of Executive's employment during such Imminent Control Change Period shall be deemed to have been for Cause unless all the substantive and procedural provisions of Section 3.3(b) shall have been satisfied:

(i) Definition of Cause. For purposes of this Section 3.3(b), "Cause" shall have the meaning ascribed to it in Section 3.3(a).

(ii) Procedural Requirements for Termination for Cause. To qualify as a termination for Cause, a termination by the Company during the Imminent Control Change Period shall have strictly complied with the procedures set forth in Section 3.3(a)(ii), substituting the phrase Imminent Control Change Period for Post-Change Employment Period wherever it appears.

(c) Standard of Review. If the Notice of Consideration is given to Executive during an Imminent Control Change Period or a Post-Change Employment Period, then in the event that the existence of Cause shall become an issue in any action or proceeding between the Company and Executive, the Company shall, notwithstanding the Cause determination referenced in clause (4)(y) of Section 3.3(a)(ii), have the burden of establishing that the actions or omissions specified in the Notice of Consideration did in fact occur and do constitute Cause and that the Company has satisfied the procedural requirements of Section 3.3(a)(ii).

3.4 Good Reason. During the Post-Change Employment Period (including any portion thereof that is a Post-Merger of Equals Period), the Executive may terminate his employment for Good Reason solely in accordance with all of the substantive and procedural provisions of this Section 3.4. Section 1.21 of the Employment Agreement (definition of "Good Reason") and Section 6.3 of the Employment Agreement (Termination Without Cause or for Good Reason) shall be inapplicable during any Post-Change Employment Period, insofar as it relates to the material contained in this Section 3.4 and Article IV, except as otherwise provided herein.

(a) Change of Control and a Merger of Equals. During the Post-Change Employment Period (including any portion thereof that is a Merger of Equals), Executive may terminate his employment for Good Reason in accordance with the substantive and procedural provisions of this Section 3.4(a).

(i) Good Reason Definition. For purposes of this Section 3.4(a), "Good Reason" means the occurrence of any one or more of the following actions or omissions during the Post-Change Employment Period:

(1) any act or omission that would constitute Good Reason as defined in Section 1.21 of the Employment Agreement;

(2) failure to pay Executive's Base Salary in violation of Section 2.2(a) or any failure to increase Executive's Base Salary to the extent, if any, required by such Section;

(3) any failure to pay Executive's Annual Bonus or any reduction in Executive's bonus opportunity, in either case in violation of Section 2.2(b);

(4) requiring Executive to be based at any office or location other than the location specified in Section 2.1(a);

(5) any other material breach of this Supplement and Amendment by the Company;

(6) any Termination of Employment by the Company that purports to be for Cause, but is not in full compliance with all of the substantive and procedural requirements of this Supplement and Amendment (any such purported termination shall be treated as a Termination of Employment without Cause for all purposes of this Supplement and Amendment); or

(7) the failure at any time of a successor to the Company explicitly to assume and agree to be bound by this Supplement and Amendment.

(ii) Determination of Good Reason. Any reasonable determination by Executive that any of the events specified in subsection (i) above has occurred and constitutes Good Reason shall be conclusive and binding for all purposes, unless the Company establishes that Executive did not have any reasonable basis for such determination.

(b) Imminent Control Change Period. Except as provided below, this Section 3.4 shall not apply during any Imminent Control Change Period. Instead, the terms of Section 6.3 of the Employment Agreement (Termination Without Cause or for Good Reason) shall govern a termination by Executive for Good Reason during an Imminent Control Change Period. However, in the case of an Imminent Control Change Period that culminates in a Consummation Date, no termination of Executive's employment during such Imminent Control Change Period shall be deemed to have been for Good Reason unless all the substantive and procedural provisions of this Section 3.4(b) shall have been satisfied:

(i) Definition of Good Reason. For purposes of this Section 3.4(b), "Good Reason" shall have the same meaning as in Section 3,4(a)(i), except that the act or omission shall have occurred during the Imminent Control Change Period.

(ii) Determination of Good Reason. Executive's determination that an event constituting Good Reason as defined in Section 3.4(a)(i)(2)-(7) has occurred

during an Imminent Control Change Period shall not be entitled to any presumptive validity or other deference by a court.

(c) Notice by Executive. In the event of any Termination of Employment by Executive for Good Reason during a Post-Change Employment Period (or during an Imminent Control Change Period if Executive intends to claim benefits hereunder in the event the Imminent Control Change Period culminates in a Consummation Date), Executive shall as soon as practicable thereafter notify the Company of the events constituting such Good Reason by a Notice of Termination. A delay in the delivery of such Notice of Termination or a failure by Executive to include in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of Executive under this Supplement and Amendment or preclude Executive from asserting such fact or circumstance in enforcing rights under this Supplement and Amendment; provided that no act or omission by the Company shall qualify as Good Reason if Executive's Termination of Employment occurs more than 12 months after Executive first obtains actual knowledge of such act or omission.

ARTICLE IV.

COMPANY'S OBLIGATIONS UPON CERTAIN TERMINATIONS OF EMPLOYMENT

4.1 Termination During the Post-Change Employment Period. If, during the Post-Change Employment Period (other than during a Post-Merger of Equals Period) the Company terminates Executive's employment other than for Cause or Disability, or Executive terminates employment for Good Reason, Section 6.3 of the Employment Agreement (Termination Without Cause or For Good Reason) shall not apply, and the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Severance Payments. The Company shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount equal to the sum of the following, no more than ten business days after the Termination Date:

(i) Accrued Obligations. All Accrued Obligations;

(ii) Prorated Annual Bonus for Year of Termination. Executive's Pro-rata Annual Bonus reduced (but not below zero) by the amount of any Annual Bonus paid to Executive with respect to the Company's fiscal year in which the Termination Date occurs, whether paid under Section 2.5 or otherwise;

(iii) Prorated LTIP Bonus. Executive's Pro-rata LTIP Bonus reduced (but not below zero) by the amount of any LTIP Bonus paid to Executive with respect to the LTIP Performance Periods not completed as of the Termination Date, whether such amount was paid under Section 2.6 or otherwise;

(iv) Additional LTIP Amount. For each LTIP Performance Period that is unexpired as of the Date of Termination, Executive shall be treated as he would be treated under the LTIP in effect on the effective date of the Employment Agreement if (1) he terminated employment at age 57 other than for cause (as

defined in the LTIP) and (2) he retired ("LTIP Benefit"); provided that the discretion of the Committee shall not be exercised so as to treat Executive less favorably than other members of Senior Management; provided further that if such payment cannot be provided under the terms of the LTIP or New LTIP, as applicable, then the Company shall pay amounts equal to such LTIP Benefit, reduced by amounts actually payable under the LTIP or New LTIP, as applicable, at the same time as they otherwise would have been paid;

(v) Deferred Pensions and Pension Enhancements. The sum of

(1) all amounts previously deferred by, or accrued to the benefit of, Executive under any defined contribution non-qualified Plans (as described in Section 2.4), whether vested or unvested, together with any accrued earnings thereon, to the extent that such amounts and earnings have not been previously paid by the Company (whether pursuant to Section 2.4 or otherwise) or are provided under the terms of such non- qualified Plan; plus

(2) an amount equal to the positive difference, if any, between:

(A) the sum of the Lump-Sum Values of each Maximum Annuity that would be payable to Executive under any defined benefit Plan (whether or not qualified under Section 401(a)) if Executive had:

(1) become fully vested in all such previously-unvested benefits,

(2) accrued a number of years of service (for purposes of determining the amount of such benefits, entitlement to early retirement benefits, and all other purposes of such defined benefit plans) that is three years greater than the number of years of service actually accrued by Executive as of the Termination Date, and

(3) received the lump-sum severance benefits specified in Section 4.1(a) (excluding LTip Bonuses and any amounts in respect of Stock Options or Restricted Shares, if any, including severance multiples thereof) as covered compensation in equal monthly installments during the period of three years following the Termination Date, minus

(B) the sum of(x) the Lump-Sum Values of the Maximum Annuity benefits actually payable to Executive under each defined benefit Plan that is qualified under Section 401(a) of the Code and (y) the

aggregate amounts previously paid (whether pursuant to Section 2.4 or otherwise) to Executive under the defined benefit Plans (whether or not qualified under Section 401(a) of the Code) described in clause (A) of this Section 4.1 (a)(v)(2).

Notwithstanding the foregoing, the amount payable under this Section 4.1(a)(v)(2) with respect to the SERP and Principal Pension Plan for Employees in the aggregate, shall not be less than the amount to which Executive would be entitled as of the Date of Termination under Section 6.3(f) of the Employment Agreement (providing for certain benefits if the Date of Termination occurs prior to the Executive's 57th birthday).

(vi) Multiple of Salary, Bonus and LTIP. An amount equal to three (3.0) times the sum of (x) Base Salary, (y) the Target Annual Bonus, and (z) the Annualized Target LTIP Bonus, each determined as of the Termination Date; provided, however, that any reduction in Executive's Base Salary or Annual Bonus that would qualify as Good Reason shall be disregarded for purposes of this clause (vi); and provided further, that the Annualized Target LTIP Bonus in clause (z) of this Section 4.1(a)(vi) shall not be included in the sum referenced above if the Termination Date occurs on or after the third anniversary of the date the Company first makes a grant of stock options to a peer executive of the Company pursuant to a written employee stock option plan applicable to peer executives of the Company; and

(vii) Unvested Defined Contribution Plan. To the extent not paid pursuant to Section 4.1(a)(v), an amount equal to the sum of the value of the unvested portion of Executive's accounts or accrued benefits under any unqualified or qualified defined contribution retirement plan maintained by the Company as of the Termination Date and forfeited by Executive by reason of the Termination of Employment.

(b) Continuation of Welfare and Fringe Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits (including medical, prescription, dental, disability, salary continuance, individual life, group life, accidental death and travel accident insurance plans and programs) and fringe benefits which are at least as favorable as the most favorable Plans of the Company applicable to members of Senior Management who are actively employed on the Termination Date and their families. The cost of such welfare benefits to Executive shall not exceed the cost of such benefits to actively employed members of Senior Management as applicable from time to time.

If the Date of Termination occurs prior to the Executive's 57th birthday, Executive shall be entitled to the benefits equivalent to those payable under the Principal Welfare Benefit Plan for Employees calculated under the terms of such plan as if the Date of Termination occurred after Executive's 57th birthday, reduced by amounts actually payable under such plan, and if either Executive or the Company reasonably believes it is likely that such

benefits cannot be provided on a tax-favored basis, the Company shall pay the cost of the insurance premium for such benefits.

Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code.

(c) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by Executive to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000.

(d) Indemnification, Directors' and Officers' Liability Insurance. The provisions of Section 9.4 of the Employment Agreement (Indemnification and Insurance) shall continue to apply after the Effective Date.

(e) Stock Incentive Awards. Immediately prior to the Executive's Termination of Employment, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding Stock Options and (ii) become fully vested in all Restricted Shares.

4.2 Termination During a Post-Merger of Equals Period. If, during a Post-Merger of Equals Period, the Company terminates Executive's employment other than for Cause or Disability, or if Executive terminates employment for Good Reason, Section 6.3 of the Employment Agreement (Termination Without Cause or for Good Reason) shall not apply, and the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Severance Payments. The Company shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount, no more than thirty business days after the Termination Date, equal to the sum of all amounts described in Section 4.1(a).

(b) Continuation of Welfare and Fringe Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits and fringe benefits with the same scope and cost as described in Section 4.1 (b).

If the Date of Termination occurs prior to the Executive's 57th birthday, Executive shall be entitled to the benefits equivalent to those payable under the Principal Welfare Benefit Plan for Employees calculated under the terms of such plan as if the Date of Termination occurred after Executive's 57th birthday, reduced by amounts actually payable under such plan, and if either Executive or the Company reasonably believes it is likely that such benefits cannot be provided on a tax-favored basis, the Company shall pay the cost of the insurance premium for such benefits.

Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code.

(c) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by the Company to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000.

(d) Indemnification, Directors' and Officers' Liability Insurance The provisions of Section 9.4 of the Employment Agreement (Indemnification and Insurance) shall continue to apply during a Post-Merger of Equals Period.

(e) Stock Incentive Awards. Immediately prior to Executive's Termination of Employment, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding Stock Options and (ii) become fully vested in all Restricted Shares.

4.3 Termination During an Imminent Control Change Period (with no Change of Control). If, during an Imminent Control Change Period, the Company terminates Executive's employment other than for Disability and other than for a reason that would constitute Cause if there were a Change of Control, or if Executive terminates employment for a reason that would constitute Good Reason if there were a Change of Control, and in either case the Imminent Control Change Period does not culminate in a Consummation Date, the applicable terms of the Employment Agreement shall govern, except that:

(a) Continuation of Welfare Benefits. Until the earlier of(i) the third anniversary of the Termination Date or (ii) the last day of the Imminent Control Change Period (or such later date as any Plan may specify), if it would provide greater benefits to Executive than under the Employment Agreement, the Company shall continue to provide to Executive and Executive's family welfare benefits with the same scope and cost as described in Section 6.3(d) of the Employment Agreement (Termination Without Cause or for Good Reason).

(b) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by Executive to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000. All outplacement amounts payable on account of a Termination Date which occurred during an Imminent Control Change Period will be reduced (but not below zero) by outplacement amounts paid to Executive on account of such Termination Date but before payment pursuant to this Section 4.3(b).

(c) Stock Incentive Awards. In addition to vesting in accordance with Section 6.3(g) of the Employment Agreement, Executive's Stock Options (whether vested prior to or upon such Termination Date) will:

(i) not expire (unless such Stock Options would have so expired had Executive remained an employee of the Company) during the Imminent Control Change Period; and

(ii) continue to be exercisable after the Termination Date to the extent provided in the applicable grant agreement or Plan, and thereafter, such Stock Options shall not be exercisable during the Imminent Control Change Period.

Upon the date the Imminent Control Change lapses without a Consummation Date Executive's vested Stock Options may be exercised, in whole or in part, during the 30-day period following the lapse of the Imminent Control Change, (but in no case shall Stock Options remain exercisable after the date on which such Stock Options would have expired if Executive had remained an employee of the Company).

4.4 Termination During an Imminent Control Change Period (which Culminates in a Change of Control). If, during an Imminent Control Change Period that culminates in a Consummation Date, the Company terminates Executive's employment other than for Cause or Disability, or if Executive terminates employment for Good Reason, the Employment Agreement shall govern prior to the Consummation Date, and upon the Consummation Date the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Severance Payments. The Company shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount equal to the sum of all amounts described in Section 4.1(a). Such amount shall be paid no more than ten business days after an Effective Date that does not qualify as a Merger of Equals and no more than 30 business days after an Effective Date which does qualify as a Merger of Equals. Notwithstanding the foregoing, all amounts paid pursuant to this Section 4.4(a) shall be reduced (but not below zero) by the same or similar amounts paid to Executive on account of the Termination of Employment (under this Supplement and Amendment, the Employment Agreement, or otherwise), to the extent such amounts would reasonably be considered duplicative, prior to the date payment is made under this Section 4.4(a).

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits with the same scope and cost as described in Section 4.1(b). Notwithstanding the foregoing, all coverage under this Section 4.4(b) shall be reduced by all coverage provided by the Company to Executive on account of the Termination of Employment (under this Supplement and Amendment, the Employment Agreement, or otherwise), to the extent such amounts would reasonably be considered duplicative, prior to the date such benefits are provided under this Section 4.4(b).

If the Date of Termination occurs prior to the Executive's 57th birthday, Executive shall be entitled to the benefits equivalent to those payable under the Principal Welfare Benefit Plan for Employees calculated under the terms of such plan as if the Date of Termination occurred after Executive's 57th birthday, reduced by amounts actually payable under such plan, and if either Executive or the Company reasonably believes it is likely that such benefits cannot be provided on a tax-favored basis, the Company shall pay the cost of the insurance premium for such benefits.

Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code.

(c) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by Executive to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000. Notwithstanding the foregoing, all outplacement amounts payable pursuant to this Section 4.4(c) shall be reduced (but not below zero) by outplacement amounts paid to Executive on account of such Termination Date (under this Supplement and Amendment, the Employment Agreement, or otherwise) prior to the date payment is made under this Section 4.4(c).

(d) Stock Incentive Awards. In addition to vesting in accordance with Section 6.3(g) of the Employment Agreement, Executive's vested Stock Options (whether vested prior to or upon such Termination Date) shall be treated as follows:

(i) not expire (unless such Stock Options would have so expired had Executive remained an employee of the Company) during the Imminent Control Change Period; and

(ii) continue to be exercisable after the Termination Date to the extent provided in the applicable grant agreement or Plan, and thereafter, such Stock Options shall not be exercisable during the Imminent Control Change Period.

Upon the Consummation Date, such vested Stock Options may be exercised by Executive in whole or in part, during the 30-day period following the Consummation Date, (but in no case shall Stock Options remain exercisable after the date on which such Stock Options would have expired if Executive had remained an employee of the Company). Notwithstanding any provision in this Section, if the Consummation Date is a Reorganization Transaction, and if so provided under the agreement pursuant to which the Reorganization Transaction is effected, then all Executive's Stock Options shall (a) be extinguished for such consideration as is provided for vested options under such agreement; or (b) be converted into options to purchase the stock of the Surviving Corporation, and such converted options shall be subject to the same option terms as those applicable prior to the Consummation Date.

4.5 Waiver and Release. Notwithstanding anything herein to the contrary, the Company shall have no obligation to Executive under Section 4.1, 4.2, 4.3, or 4.4 or Article V unless and until Executive executes a release and waiver of Mutual and the Companies, in substantially the same form as attached hereto as Exhibit A. This Section 4.5 shall supersede Section 6.5 of the Employment Agreement (Waiver and Release) insofar as it relates to material contained in this Section 4.5, effective on the Effective Date.

4.6 Termination by the Company for Cause. If the Company terminates Executive's employment for Cause during the Post-Change Employment Period or Imminent Control Change Period, Section 6.1 of the Employment Agreement (Termination for Cause or Other than for

Good Reason, etc.) shall not apply, and the Company's sole obligation to Executive under Articles II and IV shall be to pay Executive a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.7 Termination by Executive Other Than for Good Reason.

(a) If Executive terminates employment during the Post-Change Employment Period or Imminent Control Change Period other than for Retirement, Good Reason, Disability or death, Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability) shall not apply, and the Company's sole obligation to Executive under Articles II and IV shall be to pay Executive a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

(b) If Executive terminates employment during the Post-Change Employment Period or Imminent Control Change Period due to his Retirement, Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability) shall govern.

4.8 Termination by the Company for Disability. If the Company terminates Executive's employment by reason of Executive's Disability during the Post-Change Employment Period or Imminent Control Change Period, Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability) shall not apply, and Company's sole obligation to Executive under Articles II and IV shall be as follows:

(a) to pay Executive (i) the amount determined in accordance with Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability), and (ii) to the extent not paid under the Employment Agreement, a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date, and

(b) to provide Executive disability and other benefits after the Termination Date that are not less than the most favorable of such benefits then available under Plans of the Company to disabled peer executives of the Company.

If the Termination Date occurred during an Imminent Control Change Period which had a Consummation Date which is not also a Merger of Equals or a Post-Change Employment Period other than a Post-Merger of Equals Period, such disability and other benefits shall also be no less favorable, in the aggregate, than the most favorable of the disability and other benefits available to Executive under such Plans in effect at any time during the 90-day period immediately preceding (1) the Effective Date if such Termination Date occurred during a Post-Change Employment Period or (2) the date of the Imminent Control Change if such Termination Date occurred during an Imminent Control Change Period. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.9 If upon Death. If Executive's employment is terminated by reason of Executive's death during the Post-Change Employment Period or Imminent Control Change Period, Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability)

shall not apply, and the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) to pay Executive's Beneficiary or estate (i) the amount determined in accordance with Section 6.2 of the Employment Agreement (Termination for Retirement, Death or Disability) and (ii) to the extent not paid under the Employment Agreement, a lump-sum cash amount equal to all Accrued Obligations; and

(b) to provide Executive's estate or Beneficiary survivor and other benefits that are not less than the most favorable survivor and other benefits then available under Plans of the Company to the estates or the surviving families of peer executives of the Company.

If the Termination Date occurred during an Imminent Control Change which had a Consummation Date which is not also a Merger of Equals or a Post-Change Employment Period other than a Post-Merger of Equals Period, such survivor benefits shall also be no less favorable, in the aggregate, than the most favorable of the survivor benefits available to Executive under such Plans in effect at any time during the go-day period immediately preceding (1) the Effective Date if such Termination Date occurred during a Post-Change Employment Period or (2) the date of the Imminent Control Change if such Termination Date occurred during an Imminent Control Change Period. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.10 Executive's Election to Waive. Notwithstanding the foregoing provisions of this Article IV or any provision of the Employment Agreement, if Executive's employment is terminated during a Post-Change Employment Period other than for Disability, or other than by the Company for Cause, including under circumstances entitling Executive to payments and provision of benefits under Section 4.1 or 4.2., then Executive may waive ("Severance Waiver") all his rights to such payments and benefits, and all rights to payments and provision of benefits under Section 6.3 of the Employment Agreement; provided, however that the Severance Waiver shall not include a waiver of payment or provision of Executive's Accrued Obligations. Any such Severance Waiver shall be in writing, and shall be delivered to the Company as provided in Section 9.7 within three days of such termination of employment (and in any event prior to Executive's receipt of any payments or benefits). The provisions of Section 7.1 of the Employment Agreement (Non-Competition) shall not apply from and after the date the Severance Waiver is duly delivered to the Company.

ARTICLE V.

CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY

5.1 Gross-Up Payment. During the Supplement Term, this Section 5.1 shall supersede Section 8.1 of the Employment Agreement, effective on an Effective Date. If at any time or from time to time, it shall be determined by the Company's independent auditors, but only after an Effective Date, that any payment or other benefit to Executive pursuant to Article II or Article IV of this Supplement and Amendment or otherwise ("Potential Parachute Payment") is or will become subject to the excise tax imposed by Section 4999 of the Code or any similar tax payable under any United States federal, state, local, foreign or other law ("Excise Taxes"), then the

Company shall pay or cause to be paid a tax gross-up payment ("Gross-Up Payment") with respect to all such Excise Taxes and other Taxes on the Gross-Up Payment. The Gross-Up Payment shall be an amount equal to the product of

(a) The amount of the Excise Taxes (calculated at the effective marginal rates of all federal, state, local, foreign or other law),

multiplied by

(b) A fraction (the "Gross-Up Multiple"), the numerator or which is one (1.0), and the denominator of which is one (1.0) minus the lesser of (i) the sum, expressed as a decimal fraction, of the effective marginal rates of any Taxes and any Excise Taxes applicable to the Gross-Up Payment or (ii) .80. If different rates of tax are applicable to various portions of a Gross-Up Payment, the weighted average of such rates shall be used. For purposes of this section, Executive shall be deemed to be subject to the highest effective marginal rate of Taxes.

The Gross-Up Payment is intended to compensate Executive for all such Excise Taxes and any other Taxes payable by Executive with respect to the Gross-Up Payment. The Company shall pay or cause to be paid the Gross-Up Payment to Executive within ten (10) days of the calculation of such amount, but in no event after the Executive is required to make payment to the IRS of such Excise Taxes.

5.2 Limitation on Gross-Up Payments. This Section 5.2 shall supersede Section 8.2 of the Employment Agreement, effective on the Supplement Date.

(a) To the extent possible, any payments or other benefits to Executive pursuant to Article II and Article IV of this Supplement and Amendment shall be allocated as consideration for Executive's entry into the covenants of Article VII of the Employment Agreement (Restrictive Covenants).

(b) Notwithstanding any other provision of this Article V, if the aggregate After-Tax Amount (as defined below) of the Potential Parachute Payments and Gross-Up Payment that, but for this Section 5.2, would be payable to Executive, does not exceed 110% of After-Tax Floor Amount (as defined below), then no Gross-Up Payment shall be made to Executive and the aggregate amount of Potential Parachute Payments payable to Executive shall be reduced (but not below the Floor Amount) to the largest amount which would both (i) not cause any Excise Tax to be payable by Executive and (ii) not cause any Potential Parachute Payments to become nondeductible by the Company by reason of Section 280G of the Code (or any successor provision). For purposes of the preceding sentence, Executive shall be deemed to be subject to the highest effective marginal rate of Taxes.

(c) For purposes of this Supplement and Amendment:

(i) "After-Tax Amount" means the portion of a specified amount that would remain after payment of all Taxes paid or payable by Executive in respect of such specified amount;

(ii) "Floor Amount" means the greatest pre-tax amount of Potential Parachute Payments that could be paid to Executive without causing Executive to become liable for any Excise Taxes in connection therewith; and

(iii) "After-Tax Floor Amount" means the After-Tax Amount of the Floor Amount.

5.3 Additional Gross-up Amounts. If for any reason (whether pursuant to subsequently enacted provisions of the Code, final regulations or published rulings of the IRS, or a final judgment of a court of competent jurisdiction) the Company's independent auditors later determine that the amount of Excise Taxes payable by Executive is greater than the amount initially determined pursuant to Section 5.1, then the Company shall, subject to Sections 5.2 and 5.4, pay Executive, within ten (10) days of such determination, or pay to the IRS as required by applicable law, an amount (which shall also be deemed a Gross-Up Payment) equal to the product of:

(a) the sum of (i) such additional Excise Taxes and (ii) any interest, penalties, expenses or other costs incurred by Executive as a result of having taken a position in accordance with a determination made pursuant to Section 5.1 or 5.4,

multiplied by

(b) the Gross-Up Multiple.

5.4 Amount Increased or Contested.

(a) Executive shall notify the Company in writing (an "Executive's Notice") of any claim by the IRS or other taxing authority (an "IRS Claim") that, if successful, would require the payment by Executive of Excise Taxes in respect of Potential Parachute Payments in an amount in excess of the amount of such Excise Taxes determined in accordance with Section 5.1. Executive's Notice shall include the nature and amount of such IRS Claim, the date on which such IRS Claim is due to be paid (the "IRS Claim Deadline"), and a copy of all notices and other documents or correspondence received by Executive in respect of such IRS Claim. Executive shall give the Executive's Notice as soon as practicable, but no later than the earlier of (i) 10 days after Executive first obtains actual knowledge of such IRS Claim or (ii) five days before the IRS Claim Deadline; provided, however, that any failure to give such Executive's Notice shall affect the Company's obligations under this Article only to the extent that the Company is actually prejudiced by such failure. If at least one business day before the IRS Claim Deadline the Company shall:

(i) deliver to Executive a written certificate from the Company's independent auditors ("Company Certificate") to the effect that, notwithstanding the IRS Claim, the amount of Excise Taxes, interest or penalties payable by Executive is either zero or an amount less than the amount specified in the IRS Claim,

(ii) pay to Executive, or to the IRS as required by applicable law, an amount (which shall also be deemed a Gross-Up Payment) equal to difference

between the product of (x) amount of Excise Taxes, interest and penalties specified in the Company Certificate, if any, multiplied by (y) the Gross-Up Multiple, less the portion of such product, if any, previously paid to Executive by the Company, and

(iii) direct Executive pursuant to Section 5.4(d) to contest the balance of the IRS Claim,

then Executive shall pay only the amount, if any, of Excise Taxes, interest and penalties specified in the Company Certificate. In no event shall Executive pay an IRS Claim earlier than 30 days after having given an Executive's Notice to the Company (or, if sooner, the IRS Claim Deadline).

(b) At any time after the payment by Executive of any amount of Excise Taxes, other Taxes or related interest or penalties in respect of Potential Parachute Payments (including any such amount equal to or less than the amount of such Excise Taxes specified in any Company Certificate, or IRS Claim), the Company may in its discretion require Executive to pursue a claim for a refund (a "Refund Claim") of all or any portion of such Excise Taxes, other Taxes, interest or penalties as may be specified by the Company in a written notice to Executive.

(c) If the Company notifies Executive in writing that the Company desires Executive to contest an IRS Claim or to pursue a Refund Claim, Executive shall:

(i) give the Company all information that it reasonably requests in writing from time to time relating to such IRS Claim or Refund Claim, as applicable,

(ii) take such action in connection with such IRS Claim or Refund Claim (as applicable) as the Company reasonably requests in writing from time to time, including accepting legal representation with respect thereto by an attorney selected by the Company, subject to the approval of Executive (which approval shall not be unreasonably withheld or delayed),

(iii) cooperate with the Company in good faith to contest such IRS Claim or pursue such Refund Claim, as applicable,

(iv) permit the Company to participate in any proceedings relating to such IRS Claim or Refund Claim, as applicable, and

(v) contest such IRS Claim or prosecute Refund Claim (as applicable) to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company may from time to time determine in its discretion.

The Company shall control all proceedings in connection with such IRS Claim or Refund Claim (as applicable) and in its discretion may cause Executive to pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Internal Revenue Service or other taxing authority in respect of such IRS Claim or Refund Claim

(as applicable); provided that (i) any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive relating to the IRS Claim is limited solely to such IRS Claim, (ii) the Company's control of the IRS Claim or Refund Claim (as applicable) shall be limited to issues with respect to which a Gross-Up Payment would be payable, and (iii) Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or other taxing authority.

(d) The Company may at any time in its discretion direct Executive to (i) contest the IRS Claim in any lawful manner or (ii) pay the amount specified in an IRS Claim and pursue a Refund Claim; provided, however, that if the Company directs Executive to pay an IRS Claim and pursue a Refund Claim, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify Executive, on an after-tax basis, for any Excise Tax or income tax, including related interest or penalties, imposed with respect to such advance.

(e) The Company shall pay directly all legal, accounting and other costs and expenses (including additional interest and penalties) incurred by the Company or Executive in connection with any IRS Claim or Refund Claim, as applicable, and shall indemnify Executive, on an after-tax basis, for any Excise Tax or income tax, including related interest and penalties, imposed as a result of such payment of costs and expenses.

5.5 Refunds. If, after the receipt by Executive or the IRS of any payment or advance of Excise Taxes or other Taxes by the Company pursuant to this Article, Executive receives any refund with respect to such Excise Taxes, Executive shall (subject to the Company's complying with any applicable requirements of Section 5.4) promptly pay the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5.4, or receipt by the IRS of an amount paid by the Company on behalf of the Executive pursuant to Section 5.4, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such determination within 30 days after the Company receives written notice of such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid. Any contest of a denial of refund shall be controlled by Section 5.4(d).

ARTICLE VI.

EXPENSES, INTEREST AND DISPUTE RESOLUTION

6.1 Legal Fees and Other Expenses.

(a) If Executive incurs legal fees or other expenses (including expert witness and accounting fees and arbitration costs and expenses under Section 6.3) in an effort to secure, preserve, establish entitlement to, or obtain benefits under this Supplement and Amendment, the Company shall, regardless of the outcome of such effort, reimburse Executive on a current basis (in accordance with Section 6.1(b)) for such fees and expenses.

(b) Reimbursement of legal fees and expenses and gross-up payments shall be made monthly within 10 days after Executive's written submission of a request for reimbursement together with evidence that such fees and expenses were incurred.

(c) If Executive does not prevail (after exhaustion of all available judicial remedies) in respect of a claim by Executive or by the Company hereunder, and the Company establishes before a court of competent jurisdiction that Executive had no reasonable basis for Executive's claim hereunder, or for Executive's response to the Company's claim hereunder, or that Executive acted in bad faith, no further reimbursement for legal fees and expenses shall be due to Executive in respect of such claim and Executive shall refund any amounts previously reimbursed hereunder with respect to such claim.

(d) In no event shall Executive be entitled to reimbursement under this Supplement and Amendment and under the Employment Agreement for the same fees, costs or expenses.

(e) The Company shall promptly reimburse Executive for all attorneys' fees, costs and expenses incurred by Executive in connection with the negotiation, execution and delivery of this Supplement and Amendment.

6.2 Interest. If the Company does not pay any amount due to Executive under this Supplement and Amendment within ten business days after such amount first became due and owing, interest shall accrue on such amount from the date it became due and owing until the date of payment at an annual rate equal to 300 basis points above the base commercial lending rate published in The Wall Street Journal in effect from time to time during the period of such nonpayment.

6.3 Binding Arbitration. Any dispute, controversy or claim arising out of or in connection with or relating to this Supplement and Amendment or any breach or alleged breach thereof, or any benefit or alleged benefit hereunder, shall be submitted to and settled by binding arbitration in Des Moines, Iowa, in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Any dispute, controversy or claim submitted for resolution shall be submitted to three (3) arbitrators, each of whom is a nationally recognized executive compensation specialist. The Company involved in the dispute, controversy or claim, or Mutual if more than one Company is so involved, shall select one arbitrator, the Executive shall select one arbitrator and the third arbitrator shall be selected by the first two arbitrators. Any award rendered shall be final and conclusive upon the parties and a judgment thereon may be entered in the highest court of a forum, state or federal, having jurisdiction. The expenses of the arbitration shall be borne according to Section 6.1. No arbitration shall be commenced after the date when institution of legal or equitable proceedings based upon such subject matter would be barred by the applicable statute of limitations. Notwithstanding anything to the contrary contained in this Section 6.3 or elsewhere in this Supplement and Amendment, either party may bring an action in the District Court of Polk County, or the United States District Court for the Southern District of Iowa, if jurisdiction there lies, in order to maintain the status quo ante of the parties. The "status quo ante" is defined as the last peaceable, uncontested status between the parties. However, neither the party bringing the action nor the party defending the action thereby waives its right to arbitration of any dispute, controversy or claim arising out of or in connection or relating to this

Supplement and Amendment. Notwithstanding anything to the contrary contained in this Section 6.3 or elsewhere in this Supplement and Amendment, either party may seek relief in the form of specific performance, injunctive or other equitable relief in order to enforce the decision of the arbitrator(s). The parties agree that in any arbitration commenced pursuant to this Supplement and Amendment, the parties shall be entitled to such discovery (including depositions, requests for the production of documents and interrogatories) as would be available in a federal district court pursuant to Rules 26 through 37 of the Federal Rules of Civil Procedure. In the event that either party fails to comply with its discovery obligations hereunder, the arbitrator(s) shall have full power and authority to compel disclosure or impose sanctions to the full extent of Rule 37 of the Federal Rules of Civil Procedure.

Article VII.

No Set-off or Mitigation; No Double Payment

7.1 No Set-off by Company. Executive's right to receive when due the payments and other benefits provided for under this Supplement and Amendment is absolute, unconditional and subject to no setoff, counterclaim or legal or equitable defense. Time is of the essence in the performance by the Company of its obligations under this Supplement and Amendment. Any claim which the Company may have against Executive, whether for a breach of this Supplement and Amendment or otherwise, shall be brought in a separate action or proceeding and not as part of any action or proceeding brought by Executive to enforce any rights against the Company under this Supplement and Amendment.

7.2 No Mitigation. Executive shall not have any duty to mitigate the amounts payable by the Company under this Supplement and Amendment by seeking new employment or self-employment following termination. Except as specifically otherwise provided in this Supplement and Agreement, all amounts payable pursuant to this Supplement and Agreement shall be paid without reduction regardless of any amounts of salary, compensation or other amounts which may be paid or payable to Executive as the result of Executive's employment by another employer or self-employment.

7.3 No Double Payment. Notwithstanding any other provision of this Supplement and Amendment, the Executive shall not be entitled to payment under both this Supplement and Amendment and the Employment Agreement for the same type of benefit or payment, to the extent such payment would reasonably be considered duplicative. Amounts paid hereunder shall be reduced by amounts paid under the Employment Agreement for the same type of benefit or payment, to the extent such payment would reasonably be considered duplicative.

ARTICLE VIII.

NON-EXCLUSIVITY OF RIGHTS

8.1 Waiver of Certain Other Rights. To the extent that lump sum cash severance payments are made to Executive pursuant to Article IV, Executive hereby waives the right to receive severance payments or severance benefits under any other Plan or agreement of the Company, including under the Employment Agreement.

8.2 Other Rights. Except as expressly provided in Section 8.1 or elsewhere in this Supplement and Amendment, this Supplement and Amendment shall not prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other Plans provided by the Company and for which Executive may qualify, nor shall this Supplement and Amendment limit or otherwise affect such rights as Executive may have under any other agreements with the Company. The applicable provisions of the Employment Agreement (including the provisions in Article VII (Restrictive Covenants)) shall continue to apply, except as expressly provided in Sections 8.1 and 4.10 or elsewhere in this Supplement and Amendment. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any Plan and any other payment or benefit required by law at or after the Termination Date shall be payable in accordance with such Plan or applicable law except as expressly modified by this Supplement and Amendment.

8.3 No Right to Continued Employment. Nothing in this Supplement and Amendment shall guarantee the right of Executive to continue in employment, and the Companies retain the right to terminate the Executive's employment at any time for any reason or for no reason.

ARTICLE IX.

MISCELLANEOUS

9.1 No Assignability. This Supplement and Amendment is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Supplement and Amendment shall inure to the benefit of and be enforceable by Executive's legal representatives.

9.2 Successors. This Supplement and Amendment shall inure to the benefit of and be binding upon the Company and its successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company to assume expressly and agree to perform this Supplement and Amendment in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Any successor to the business or assets of the Company which assumes or agrees to perform this Supplement and Amendment by operation of law, contract, or otherwise shall be jointly and severally liable with the Company under this Supplement and Amendment as if such successor were the Company.

9.3 Payments to Beneficiary. If Executive dies before receiving amounts to which Executive is entitled under this Supplement and Amendment, such amounts shall be paid in a lump sum to Executive's Beneficiary (or estate).

9.4 Non-Alienation of Benefits. Benefits payable under this Supplement and Amendment shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, before actually being received by Executive, and any such attempt to dispose of any right to benefits payable under this Supplement and Amendment shall be void.

9.5 Severability. If any one or more Articles, Sections or other portions of this Supplement and Amendment are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Article, Section or other portion not so declared to be unlawful or invalid. Any Article, Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Article, Section or other portion to the fullest extent possible while remaining lawful and valid.

9.6 Amendments. This Supplement and Amendment shall not be amended or modified except by written instrument executed by the Company and Executive.

9.7 Notices. All notices and other communications under this Supplement and Amendment shall be in writing and delivered by hand, by nationally-recognized delivery service that promises overnight delivery, or by first-class registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive, to Executive at his most recent home address on file with the Company.

With copy to:

Susan Daley, Esq.
Altheimer & Grey
10 South Wacker Drive, Suite 4000
Chicago, Illinois 60606
Facsimile No.: (312) 715-4800

If to any Company:

Principal Mutual Holding Company
711 High Street
Des Moines, Iowa 50392
Attention: Karen Shaff
Facsimile No.: (515) 235-9852

With copy to:

Pamela Baker, Esq.
Sonnenschein Nath & Rosenthal
8000 Sears Tower
Chicago, Illinois 60606
Facsimile No.: (312) 876-7934

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

9.8 Continuing Validity of Employment Agreement. Except as amended herein or as subsequently amended, the Employment Agreement shall remain in effect in accordance with its terms.

9.9 Counterparts. This Supplement and Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together constitute one and the same instrument.

9.10 Governing Law. This Supplement and Amendment shall be interpreted and construed in accordance with the laws of the State of Iowa, without regard to its choice of law principles.

9.11 Captions. The captions of this Supplement and Amendment are not a part of the provisions hereof and shall have no force or effect.

9.12 Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine.

9.13 Tax Withholding. The Company may withhold from any amounts payable under this Supplement and Amendment any Taxes that are required to be withheld pursuant to any applicable law or regulation and may report all such amounts payable to such authority as is required by any applicable law or regulation.

9.14 Waiver. Executive's failure to insist upon strict compliance with any provision of this Supplement and Amendment shall not be deemed a waiver of such provision or any other provision of this Supplement and Amendment. A waiver of any provision df this Supplement and Amendment shall not be deemed a waiver of any other provision, and any waiver of any default in any such provision shall not be deemed a waiver of any later default thereof or of any other provision.

9.15 Joint and Several Liability. The obligations of the Companies to Executive under this Supplement and Amendment shall be joint and several.

9.16 Entire Agreement. This Supplement and Amendment, together with the Employment Agreement, contains the entire understanding of Mutual, Company and Executive with respect to its subject matter.

IN WITNESS WHEREOF, Executive, Principal Mutual Holding Company, Principal Financial Group, Principal Financial Services, Inc., and Principal Life Insurance Company have executed this Supplement and Amendment as of the date first above written.

EXECUTIVE

/s/ J. Barry Griswell

J. BARRY GRISWELL

PRINCIPAL MUTUAL HOLDING COMPANY

/s/ Daniel Gelatt

By: Daniel Gelatt
Title: Chairman Human Resource Committee of the Board of Directors

PRINCIPAL FINANCIAL GROUP

/s/ Daniel Gelatt

By: Daniel Gelatt
Title: Chairman Human Resource Committee of the Board of Directors

PRINCIPAL FINANCIAL SERVICES, INC.

/s/ Daniel Gelatt

By: Daniel Gelatt
Title: Chairman Human Resource Committee of the Board of Directors

PRINCIPAL LIFE INSURANCE COMPANY

/s/ Daniel Gelatt

By: Daniel Gelatt
Title: Chairman Human Resource Committee of the Board of Directors

EXHIBIT 10.9

PRINCIPAL MUTUAL HOLDING COMPANY AND

PRINCIPAL LIFE INSURANCE COMPANY

CHANGE OF CONTROL EMPLOYMENT AGREEMENT

(TIER ONE EXECUTIVES)

TABLE OF CONTENTS

PAGE

TABLE OF CONTENTS

Article I. Certain Definitions 1
1.1 "Accrued Annual Bonus" 1
1.2 "Accrued Base Salary" 1
1.3 "Accrued LTIP Bonus" 1
1.4 "Accrued Obligations" 1
1.5 "Affiliate" 2
1.6 "Agreement Date" 2
1.7 "Agreement Term" 2
1.8 "Annual Bonus" 2
1.9 "Annual Performance Period" 2
1.10 "Annualized Target LTIP Bonus" 2
1.11 "Article" 3
1.12 "Base Salary" 3
1.13 "Beneficial Owner" 3
1.14 "Beneficiary" 3
1.15 "Board" 3
1.16 "Bonus Plan" 3
1.17 "Cause" 3
1.18 "Change of Control" 3
1.19 "Code" 4
1.20 "Company" 4
1.21 "Company Certificate" 4
1.22 "Competitive Business" 4
1.23 "Consummation Date" 4
1.24 "Continuity of Ownership" 4
1.25 "Demutualization" 5
1.26 "Disability" 5
1.27 "Effective Date" 5
1.28 "Exchange Act" 5
1.29 "Excise Taxes" 5
1.30 "Good Reason" 5
1.31 "Gross-Up Multiple" 5
1.32 "Gross-Up Payment" 5
1.33 "Imminent Control Change" 5
1.34 "Imminent Control Change Period" 7
1.35 "including" 7
1.36 "IRS" 7
1.37 "IRS Claim" 7
1.38 "LTIP" 7
1.39 "LTIP Award" 7
1.40 "LTIP Bonus" 7

TABLE OF CONTENTS

(CONTINUED)

		PAGE
1.41	"LTIP Outstanding Award"	7
1.42	"LTIP Performance Period"	7
1.43	"LTIP Target Award"	7
1.44	"Lump Sum Value"	7
1.45	"Maximum Annuity"	7
1.46	"Merger of Equals"	8
1.47	"Merger of Equals Cessation Date"	8
1.48	"Mutual"	8
1.49	"Mutual Incumbent Directors"	9
1.50	"New LTIP"	9
1.51	"Notice of Consideration"	9
1.52	"Notice of Termination"	9
1.53	"Person"	9
1.54	"Plans"	9
1.55	"Post-Change Employment Period"	9
1.56	"Post-Merger of Equals Period"	9
1.57	"Potential Parachute Payment"	9
1.58	"Pro-rata Annual Bonus"	9
1.59	"Pro-rata LTIP Bonus"	10
1.60	"Refund Claim"	10
1.61	"Reorganization Transaction"	10
1.62	"Restricted Shares"	10
1.63	"SEC"	10
1.64	"SEC Person"	11
1.65	"Section"	11
1.66	"SERP"	11
1.67	"Stock Options"	11
1.68	"Surviving Corporation"	11
1.69	"Target Annual Bonus"	11
1.70	"Taxes"	11
1.71	"Termination Date"	11
1.72	"Termination of Employment"	11
1.73	"25% Owner"	12
1.74	"Voting Securities"	12
Article II.	Post-Change Employment Period	12
2.1	Position and Duties	12
2.2	Compensation	13
2.3	Stock Incentive Awards	16
2.4	Unfunded Deferred Compensation	16
2.5	Pro-rata Annual Bonus	17
2.6	Pro-rata LTIP Bonus	17

TABLE OF CONTENTS

(CONTINUED)

	PAGE
Article III. Termination of Employment	17
3.1 Disability	17
3.2 Death	18
3.3 Termination for Cause.	18
3.4 Good Reason	21
Article IV. Company's Obligations Upon Certain Terminations of Employment	23
4.1 Termination During the Post-Change Employment Period	23
4.2 Termination During a Post-Merger of Equals Period	26
4.3 Termination During an Imminent Control Change Period (with no Change of Control)	27
4.4 Termination During an Imminent Control Change Period (which Culminates in a Change of Control)	28
4.5 Waiver and Release	30
4.6 Termination by the Company for Cause	30
4.7 Termination by Executive Other Than for Good Reason	31
4.8 Termination by the Company for Disability	31
4.9 If upon Death	31
Article V. Certain Additional Payments by the Company	32
5.1 Gross-Up Payment	32
5.2 Limitation on Gross-Up Payments	32
5.3 Additional Gross-up Amounts	33
5.4 Amount Increased or Contested	33
5.5 Refunds	35
Article VI. Expenses, Interest and Dispute Resolution	36
6.1 Legal Fees and Other Expenses	36
6.2 Interest	36
6.3 Binding Arbitration	36
Article VII. No Set-off or Mitigation	37
7.1 No Set-off by Company	37
7.2 No Mitigation	37
Article VIII. Confidentiality and Noncompetition	38
8.1 Confidential Information	38
8.2 Non-Competition	38
8.3 Non-Solicitation	39
8.4 Intellectual Property	39
8.5 Reasonableness of Restrictive Covenants	40
8.6 Right to Injunction; Survival of Undertakings	41

TABLE OF CONTENTS

(CONTINUED)

PAGE

Article IX. Non-Exclusivity of Rights 41
9.1 Waiver of Certain Other Rights 41
9.2 Other Rights 41
9.3 No Right to Continued Employment 42

Article X. Miscellaneous 42
10.1 No Assignability 42
10.2 Successors 42
10.3 Payments to Beneficiary 42
10.4 Non-Alienation of Benefits 42
10.5 Severability 42
10.6 Amendments 42
10.7 Notices 42
10.8 Counterparts 43
10.9 Governing Law 43
10.10 Captions 43
10.11 Number and Gender 43
10.12 Tax Withholding 43
10.13 Waiver 43
10.14 Joint and Several Liability 43
10.15 Entire Agreement 44

PRINCIPAL MUTUAL HOLDING COMPANY AND

PRINCIPAL LIFE INSURANCE COMPANY

CHANGE-OF-CONTROL EMPLOYMENT AGREEMENT

THIS AGREEMENT dated as of _____, 2000 (the "Agreement Date") is made by and among Principal Mutual Holding Company, an Iowa mutual holding company (together with all successors thereto, "Mutual"), Principal Financial Group, Inc., an Iowa corporation, Principal Financial Services, Inc., an Iowa corporation, and Principal Life Insurance Company, an Iowa corporation (together with all successors thereto, "Life") (each of the foregoing referred to individually as a "Company" or collectively as "Companies"), and _____ ("Executive").

RECITALS

The Companies have determined that it is in the best interests of the Companies and their members, (and if, at the relevant time, any are stock companies, their stockholders) to assure that the Companies will have the continued service of Executive. The Companies also believe it is imperative to reduce the distraction of Executive that would result from the personal uncertainties caused by a pending or threatened change of control of Mutual, to encourage Executive's full attention and dedication to the Companies, and to provide Executive with compensation and benefits arrangements upon a change of control which ensure that the expectations of Executive will be satisfied and are competitive with those of similarly-situated businesses. This Agreement is intended to accomplish these objectives.

ARTICLE I.

CERTAIN DEFINITIONS

As used in this Agreement, the terms specified below shall have the following meanings:

1.1 "Accrued Annual Bonus" means the amount of any Annual Bonus earned but not yet paid with respect to the Company's latest fiscal year ended prior to the Effective Date, Merger of Equals Cessation Date, or Termination Date, as applicable.

1.2 "Accrued Base Salary" means the amount of Executive's Base Salary that is accrued but not yet paid as of the Termination Date.

1.3 "Accrued LTIP Bonus" means the amount of any LTIP Bonus earned but either deferred or not paid on or prior to the Effective Date, Merger of Equals Cessation Date, or Termination Date, as applicable.

1.4 "Accrued Obligations" means, as of any date, the sum of Executive's Accrued Base Salary, Accrued Annual Bonus, Accrued LTIP Bonus, any accrued but unpaid paid time

off, and any other amounts and benefits which are then due to be paid or provided to Executive by the Company, but have not yet been paid or provided (as applicable).

1.5 "Affiliate" means any Person that directly or indirectly controls, is controlled by, or is under common control with, a Company. For purposes of this definition the term "control" with respect to any Person means the power to direct or cause the direction of management or policies of such Person, directly or indirectly, whether through the ownership of Voting Securities, by contract or otherwise.

1.6 "Agreement Date" -- see the introductory paragraph of this Agreement.

1.7 "Agreement Term" means the period commencing on the Agreement Date and ending on the third anniversary of the Agreement Date or, if later, such later date to which the Agreement Term is extended under the following sentence. Commencing on the first anniversary of the Agreement Date, the Agreement Term shall automatically be extended each day by one day to create a new two-year term until, at any time after the first anniversary of the Agreement Date, the Company delivers written notice (an "Expiration Notice") to Executive that the Agreement shall expire on a date specified in the Expiration Notice (the "Expiration Date") that is not less than 24 months after the date the Expiration Notice is delivered to Executive; provided, however, that if an Effective Date or an Imminent Control Change occurs before the Expiration Date specified in the Expiration Notice, then such Expiration Notice shall be void and of no further effect, provided, however, if such Imminent Control Change does not culminate in a Consummation Date, then such Expiration Notice shall be reinstated and the Agreement shall expire on the date originally specified as the Expiration Date, or if later, the date the Imminent Control Change lapses. Notwithstanding anything herein to the contrary, the Agreement Term shall end on the second anniversary of the Effective Date.

1.8 "Annual Bonus" -- see Section 2.2(b).

1.9 "Annual Performance Period" -- see Section 2.2(b).

1.10 "Annualized Target LTIP Bonus" means, in respect of any Termination Date, an amount, based on the most recently granted LTIP Award for which the LTIP Performance Period has not expired or terminated (disregarding for this purpose the premature termination of any LTIP Performance Period that occurred on or after the Effective Date), calculated as follows:

(a) If the most recently granted LTIP Award was granted under the 1999 Long-Term Performance Plan, the projected target award (stated as a percentage of Base Salary) as calculated at the beginning of the three-year award cycle which Executive would have been entitled to receive with respect to such most recent allocation of performance units as if "Gain from Operations" and "Return on Equity" (as such terms are defined in the 1999 Long-Term Performance Plan) targets had been met.

(b) If the most recently granted LTIP Award was granted under a New LTIP under which consecutive LTIP Performance Periods end each 12 months, the Executive's LTIP Target Award with respect to such most recent grant.

(c) If the most recently granted LTIP Award was granted under a New LTIP under which consecutive LTIP Performance Periods end more or less frequently than

each 12 months, the Executive's LTIP Target Award with respect to such most recent grant, multiplied by a fraction, the numerator of which is 12 and the denominator of which is the number of whole months between payments of LTIP Bonuses.

(d) If the Executive has no LTIP Awards outstanding with respect to which the LTIP Performance Period has not yet ended, the amount shall be zero.

1.11 "Article" means an article of this Agreement.

1.12 "Base Salary -- see Section 2.2(a).

1.13 "Beneficial Owner" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

1.14 "Beneficiary" -- see Section 10.3.

1.15 "Board" means the Board of Directors of Mutual or, from and after the effective date of a Reorganization Transaction, the Board of Directors of the Surviving Corporation.

1.16 "Bonus Plan" -- see Section 2.2(b).

1.17 "Cause" -- see Section 3.3.

1.18 "Change of Control" means, except as otherwise provided below, the occurrence of any one or more of the following:

(a) any SEC Person becomes the Beneficial Owner of 25% or more of the common stock of Mutual or of Voting Securities representing 25% or more of the combined voting power of all Voting Securities of Mutual (such an SEC Person, a "25% Owner"); or

(b) the Mutual Incumbent Directors (determined using the Agreement Date as the baseline date) cease for any reason to constitute at least a majority of the Board; or

(c) consummation of a merger, reorganization, consolidation, or similar transaction (any of the foregoing, a "Reorganization Transaction") where the Continuity of Ownership is not more than 60%; or

(d) approval by the members of Mutual, if at the relevant time Mutual is a mutual life insurance holding company, or approval by the stockholders of Mutual, if at the relevant time Mutual is a stock company, of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of Mutual or a plan of liquidation of Mutual.

Notwithstanding the foregoing, a Change of Control shall not occur merely as a result of (i) Demutualization, or (ii) an underwritten initial public offering of common stock of Mutual as filed with the SEC, unless such initial public offering results in any SEC Person becoming a 25% Owner. Notwithstanding the occurrence of any of the foregoing events, a Change of Control

shall not occur with respect to Executive if, in advance of such event, Executive agrees in writing that such event shall not constitute a Change of Control.

1.19 "Code" means the Internal Revenue Code of 1986, as amended.

1.20 "Company" -- see the introductory paragraph to this Agreement.

1.21 "Company Certificate" -- see Section 5.4(a).

1.22 "Competitive Business" means as of any date (including during the one-year period commencing on the Termination Date) any Person (and any branch, office or operation thereof) that engages in, or proposes to engage in:

(a) the underwriting, reinsurance, marketing or sale of (i) any form of insurance of any kind that any of the Companies as of such date does, or has under active consideration a proposal to, underwrite, reinsure, market or sell (any such form of insurance, a "Company Insurance Product" or (ii) any other form of insurance that is marketed or sold in competition with any Company Insurance Product, or

(b) the sale of financial services which involve (i) the management, for a fee or other remuneration, of an investment account or find (or portions thereof or a group of investment accounts or funds), (ii) the giving of advice, for a fee or other remuneration, with respect to the investment and/or reinvestment of assets or funds (or any group of assets or funds), or (iii) financial planning services, or

(c) the design, implementation and administration of employee benefit plans, including plan documents, employee communications, reporting, disclosure, financial advice, investment advice, and fiduciary services, or

(d) any other business that as of such date is a direct and material competitor of a Company and its Affiliates to the extent that prior to the Date of Termination any of the Companies or its Affiliates engaged at any time within 12 months in or had under active consideration a proposal to engage in such competitive business;

and that is located anywhere in the United States or anywhere outside of the United States where such Company or its Affiliates is then engaged in, or has under active consideration a proposal to engage in, any of such activities.

1.23 "Consummation Date" means the first date after an Imminent Control Change upon which an Effective Date occurs, provided, however that one of the following is satisfied:

(a) the Imminent Control Change has not lapsed; or

(b) the Imminent Control Change in effect upon such Effective Date is the last Imminent Control Change in a series of Imminent Control Changes unbroken by any period of time between the lapse of an Imminent Control Change and the occurrence of a new Imminent Control Change.

1.24 "Continuity of Ownership" of a stated percentage means

(a) if at the relevant time Mutual is a mutual life insurance holding company, the Persons who were the members of Mutual immediately before a Reorganization Transaction became, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of Voting Securities of the Surviving Corporation representing the stated percentage of the combined voting power of the then- outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Person's ownership of Voting Securities of Mutual immediately before such Reorganization Transaction, and

(b) if at the relevant time Mutual is a stock company, the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of Mutual immediately before such Reorganization Transaction became, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of both the stated percentage of the then-outstanding common stock of the Surviving-Corporation and Voting Securities representing the stated percentage of the combined voting power of the then-outstanding Voting Securities of the Surviving Corporation, in substantially the same respective proportions as such Persons' ownership of the common stock and Voting Securities of Mutual immediately before such Reorganization Transaction.

1.25 "Demutualization" means the conversion of Mutual from a mutual life insurance holding company to a stock company (x) at least 50% of whose stockholders are persons who were members of Mutual immediately prior to such transaction or a trust or separate account holding the shares of Mutual for the benefit of such members or (y) owned by a corporation at least 50% of the shares of which are held by the persons or trust described under clause (x), excluding any such conversion that results in any SEC Person becoming a 25% Owner.

1.26 "Disability" -- see Section 3.1 (b).

1.27 "Effective Date" means the date on which a Change of Control first occurs during the Agreement Term.

1.28 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

1.29 "Excise Taxes" -- see Section 5.1.

1.30 "Good Reason" -- see Section 3.4.

1.31 "Gross-Up Multiple" -- see Section 5.1.

1.32 "Gross-Up Payment" -- see Section 5.1.

1.33 "Imminent Control Change' means, as of any date on or after the Agreement Date and prior to the Effective Date, the occurrence of any one or more of the following:

(a) Mutual enters into an agreement the consummation of which would constitute a Change of Control;

(b) Any SEC Person attempts to acquire 25% or more of the member interests in Mutual, as evidenced by filing or other certification of notice of such intent with any state's governmental agency established to regulate the insurance industry, which if consummated would constitute a Change of Control;

(c) After Demutualization., any SEC Person commences a "tender offer" (as such term is used in Section 14(d) of the Exchange Act) or exchange offer, which, if consummated, would result in a Change of Control; or

(d) After Demutualization, any SEC Person files with the SEC a preliminary or definitive proxy solicitation or election contest to elect or remove one or more members of the Board, which, if consummated or effected, would result in a Change of Control;

provided, however, that an Imminent Control Change will lapse and cease to qualify as an Imminent Control Change:

(i) With respect to an Imminent Control Change described in clause (a) of this definition, the date such agreement is terminated, cancelled or expires without a Consummation Date occurring;

(ii) With respect to an Imminent Control Change described in clause (b) of this definition, the date such filing or other certification is withdrawn, expires or is denied or otherwise rejected by the relevant state regulators without a Consummation Date occurring;

(iii) With respect to an Imminent Control Change described in clause (c) of this definition, the date such tender offer or exchange offer is withdrawn or terminates without a Consummation Date occurring;

(iv) With respect to an Imminent Control Change described in clause (d) of this definition, (1) the date the validity of such proxy solicitation or election contest expires under relevant state corporate law, or (2) the date such proxy solicitation or election contest culminates in a stockholder vote, in either case without a Consummation Date occurring; or

(v) The date a majority of the Mutual Incumbent Directors make a good faith determination that any event or condition described in clause (a), (b), (c) or (d) of this definition no longer constitutes an Imminent Control Change, provided that such determination may not be made prior to the six (6) month anniversary of the occurrence of such event.

Notwithstanding the foregoing, an Imminent Control Change shall not occur merely as a result of (A) planning, or filing or certifying an intent with any state's governmental agency established to regulate the insurance industry of a Demutualization application, or (B) the planned underwritten initial public offering of common stock of Mutual as filed with the SEC; provided, however, that such initial public offering is not expected to result in any SEC Person becoming a 25% Owner.

1.34 "Imminent Control Change Period" means the period commencing on the date of an Imminent Control Change (or the first Imminent Control Change in a series of Imminent Control Changes unbroken by any period of time between the lapse of an Imminent Control Change and the occurrence of a new Imminent Control Change) and ending on the Consummation Date, or if earlier, the date an Imminent Control Change lapses (without the prior or concurrent occurrence of a new Imminent Control Change).

1.35 "including" means including without limitation.

1.36 "IRS" means the Internal Revenue Service of the United States of America.

1.37 "IRS Claim" -- see Section 5.4.

1.38 "LTIP means the 1999 Long-Term Performance Plan as amended from time to time.

1.39 "LTIP Award" means a grant under the LTIP or New LTIP

1.40 "LTIP Bonus" means the amount paid or earned in respect of an LTIP Award.

1.41 "LTIP Outstanding Award" -- see the definition of "Pro-rata LTIP Bonus."

1.42 "LTIP Performance Period" means the performance period applicable to an LTIP Award, as designated in accordance with the LTIP or New LTIP.

1.43 "LTIP Target Award" means, in respect of any LTIP Award under a New LTIP, the amount which Executive would have been entitled to receive for the LTIP Performance Period corresponding to such LTIP Award if the performance goals established pursuant to such LTIP Award were achieved at the target level (currently 100%) as of the end of the LTIP Performance Period.

1.44 "Lump Sum Value" of an annuity payable pursuant to a defined benefit plan (whether or not qualified under Section 401(a) of the Code) means, as of a specified date, the present value of such annuity, as determined, as of such date, under generally accepted actuarial principles using (i) the applicable interest rate, mortality tables and other methods and assumptions that the Pension Benefit Guaranty Corporation ("PBGC") would use in determining the value of an immediate annuity on the Termination Date or (ii) if such interest rate and mortality assumptions are no longer published by the PBGC, interest rate and mortality assumptions determined in a manner as similar as practicable to the manner by which the PBGC's interest rate and mortality assumptions were determined immediately prior to the PBGC's cessation of publication of such assumptions; provided, however, that if such defined benefit plan provides for a lump sum distribution and such lump-sum distribution either (x) is the only payment method available under such plan or (y) provides for a greater amount than the Lump Sum Value of the Maximum Annuity available under such plan, then "Lump Sum Value" shall mean such lump sum amount.

1.45 "Maximum Annuity" means, in respect of a defined benefit plan (whether or not qualified under Section 401(a) of the Code), an annuity computed in whatever manner permitted under such plan (including frequency of annuity payments, attained age upon commencement of

annuity payments, and nature of surviving spouse benefits, if any) that yields the greatest Lump Sum Value.

1.46 "Merger of Equals" means a Change of Control consisting of, as of any date on or after the Agreement Date, a Reorganization Transaction that, notwithstanding the fact that such transaction also qualifies as a Change of Control, satisfies all of the following:

(a) consummation of such Reorganization Transaction results in Continuity of Ownership of at least 40%, but not more than 60%; and

(b) an SEC Person does not become a 25% Owner; and

(c) Mutual Incumbent Directors (determined using the date immediately preceding the Effective Date as the baseline date), throughout the period beginning on the Effective Date and ending on the second anniversary of the Effective Date, continue to constitute not less than

(i) a majority of the Board, if subsection (a) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 50%, but not more than 60%; or

(ii) one (1) member less than a majority of the Board, if subsection (a) of this definition is satisfied because the Reorganization Transaction resulted in Continuity of Ownership of at least 40%, but less than 50%; and

(d) the person who was the Chief Executive Officer of Mutual immediately prior to the first to occur of the (x) the day prior to the beginning of the Imminent Control Change Period or (y) the day prior to the Effective Date shall serve as the Chief Executive Officer of the Surviving Corporation at all times during the period commencing on the Effective Date and ending on the first anniversary of the Effective Date;

provided, however, that a Merger of Equals shall cease to be considered a Merger of Equals and shall instead qualify as a Change of Control that is not a Merger of Equals from and after the first date (the "Merger of Equals Cessation Date") as of which:

(i) during the Post-Change Employment Period the conditions of any of clause (b) or clause (c) or clause (d) of this definition shall not be satisfied; or

(ii) prior to the first anniversary of the Effective Date, the Company shall make a filing with the SEC, issue a press release, or make a public announcement to the effect that Mutual or the Surviving Corporation is seeking or intends to seek a replacement for its Chief Executive Officer, whether such replacement is to become effective before or after such first anniversary

1.47 "Merger of Equals Cessation Date" -- see the definition of "Merger of Equals."

1.48 "Mutual" -- see the introductory paragraph of this Agreement.

1.49 "Mutual Incumbent Directors" means, as of any specified baseline date, individuals then serving as members of the Board who were members of the Board as of the date immediately preceding such baseline date; provided that any subsequently-appointed or elected member of the Board whose election, or nomination for election by members, or by stockholders of Mutual if Mutual is a stock company at the relevant time, or stockholders or members, as applicable, of the Surviving Corporation, as applicable, was approved by a vote or written consent of At least a majority of the directors then comprising the Mutual Incumbent Directors shall also thereafter be considered a Mutual Incumbent Director, unless the initial assumption of office of such subsequently-elected or appointed director was in connection with an Imminent Control Change but only if such Imminent Control Change was triggered by the occurrence of an event described in subsection (d) of the definition of Imminent Control Change.

1.50 "New LTIP" -- see definition of "Pro-rata Target LTIP Bonus."

1.51 "Notice of Consideration" -- see Section 3.3.

1.52 "Notice of Termination" means a written notice given in accordance with Section 10.7 which sets forth (i) the specific termination provision in this Agreement relied upon by the party giving such notice, (ii) in reasonable detail the specific facts and circumstances claimed to provide a basis for such Termination of Employment, and (iii) if the Termination Date is other than the date of receipt of such Notice of Termination, the Termination Date.

1.53 "Person" means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

1.54 "Plans" means plans, programs, policies, practices or procedures of the Company.

1.55 "Post-Change Employment Period" means the period commencing on the Effective Date and ending on the second anniversary of the Effective Date.

1.56 "Post-Merger of Equals Period" means the period commencing on an Effective Date of a Merger of Equals and ending on the first to occur of the Merger of Equals Cessation Date or the end of the Post-Change Employment Period.

1.57 "Potential Parachute Payment" -- see Section 5. I.

1.58 "Pro-rata Annual Bonus" means an amount equal to the product of Executive's Target Annual Bonus (for the fiscal year in which the Effective Date, Merger of Equals Cessation Date or Termination Date occurs, as applicable, but disregarding any reduction in such Target Annual Bonus that would qualify as Good Reason if Executive were to terminate employment on account thereof) multiplied by a fraction, the numerator of which equals the number of days from and including the first day of such fiscal year through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals 365.

1.59 "Pro-rata LTIP Bonus" means an amount equal to the sum of the following amounts, calculated separately for each LTIP Award for which the LTIP Performance Period has

not ended as of the Effective Date, Merger of Equals Cessation Date, or Termination Date, as applicable:

(a) For any LTIP Award that was granted under the LTIP, the sum of the following amounts (recalculated as of the applicable date for each such LTIP Award):

(i) Executive's LTIP Outstanding Award (as defined below) with respect to any LTIP Performance Period which began prior to the calendar year of the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable; and

(ii) Executive's LTIP Outstanding Award (as defined below) with respect to any LTIP Performance Period which began in the calendar year in which the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, occurs, multiplied by a fraction, the numerator of which equals the number of days from and including the first day of such calendar year through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals 365.

(b) For any LTIP Award that was granted under a new or successor plan replacing or supplementing the LTIP ("New LTIP"), an amount calculated by adding together the amounts determined by multiplying each LTIP Target Award by a fraction, the numerator of which equals the number of days from and including the beginning of the LTIP Performance Period applicable to such LTIP Target Award through and including the Effective Date, Merger of Equals Cessation Date or Termination Date, as applicable, and the denominator of which equals the aggregate number of days in such LTIP Performance Period.

"LTIP Outstanding Award" means, in respect of any LTIP Award, the amount which Executive would have been entitled to receive for the LTIP Performance Period applicable to such LTIP Award, which amount is equal to the product of (x) the number of Initial Performance Units (as defined in the LTIP) multiplied by (y) an amount determined by applying the formula described as the "Start Imputed Value" in the LTIP, but determining "Average Return on Equity" and "Equity of the consolidated Principal Financial Group" as of December 31 of the year preceding the year in which the applicable determination date occurs, and not taking into account any value for any unfinished year in the award cycle, not taking into account any performance scores, multipliers or adjustment factors, and not prorated for any unfinished year in the award cycle.

1.60 "Refund Claim" -- see Section 5.4.

1.61 "Reorganization Transaction" -- see clause (c) of the definition of "Change of Control."

1.62 "Restricted Shares" -- see Section 2.3.

1.63 "SEC" means the United States Securities and Exchange Commission.

1.64 "SEC Person" means any person (as such term is used in Rule 13d-5 of the SEC under the Exchange Act) or group (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than an Affiliate or any employee benefit plan (or any related trust) of Mutual or any of its Affiliates.

1.65 "Section" means, unless the context otherwise requires, a section of this Agreement.

1.66 "SERP" means a supplemental executive retirement Plan that is not qualified under Section 401 (a) of the Code, including the Supplemental Executive Retirement Plan for Employees (or any successor plan).

1.67 "Stock Options" -- see Section 2.3.

1.68 "Surviving Corporation" means the corporation resulting from a Reorganization Transaction or, if securities representing at least 50% of the aggregate voting power of such resulting corporation, (if such corporation is a stock company at the relevant time), or of the mutual life insurance holding company policies (if such corporation is a mutual life insurance holding company at the relevant time) are directly or indirectly owned by another corporation, such other corporation.

1.69 "Target Annual Bonus" as of a certain date means the amount equal to the product of Base Salary determined as of such date multiplied by the percentage of such Base Salary to which Executive would have been entitled immediately prior to such date under any Bonus Plan for the Annual Performance Period for which such Annual Bonus is awarded if the performance goals established pursuant to such Bonus Plan were achieved at the 100% level as of the end of the Annual Performance Period; provided, however, that any reduction in Executive's Base Salary or Annual Bonus that would qualify as Good Reason shall be disregarded for purposes of this definition.

1.70 "Taxes" means the incremental federal, state, local and foreign income, employment, excise and other taxes payable by Executive with respect to any applicable item of income.

1.71 "Termination Date" means the date of the receipt of the Notice of Termination by Executive (if such Notice is given by the Company) or by the Company (if such Notice is given by Executive), or any later date, not more than 15 days after the giving of such Notice, specified in such notice as of which Executives' employment shall be terminated; provided, however, that:

(i) if Executive's employment is terminated by reason of death or Disability, the Termination Date shall be the date of Executive's death or the date of the Disability (as described in Section 3.1(a)), as applicable; and

(ii) if no Notice of Termination is given, the Termination Date shall be the last date on which Executive is employed by the Company.

1.72 "Termination of Employment" means any termination of Executive's employment with the Company, whether such termination is initiated by the Company or by Executive.

1.73 "25% Owner" -- see paragraph (a) of the definition of "Change of Control."

1.74 "Voting Securities" means (a) with respect to a corporation, securities of such corporation that are entitled to vote generally in the election of directors of such corporation, and (b) with respect to a mutual life insurance company or mutual life insurance holding company, policies of such company entitled to vote generally in the election of directors of such company.

ARTICLE II.

POST-CHANGE EMPLOYMENT PERIOD

2.1 Position and Duties.

(a) Change of Control. During the Post-Change Employment Period, except as otherwise provided in Section 2.1 (b) below, (i) Executive's position (including offices, titles, reporting requirements and responsibilities, but not reporting responsibilities), authority and duties shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately before the Effective Date (or if the Effective Date was the Consummation Date of an Imminent Control Change, during the 90-day period immediately before the beginning of the Imminent Control Change Period) and (ii) Executive's services shall be performed at the location where Executive was employed immediately before the Effective Date (or before the beginning of such Imminent Control Change Period) or any other location no more than 50 miles from such former location.

(b) Merger of Equals. During any portion of the Post-Change Employment Period that qualifies as a Post-Merger of Equals Period, the Company may in its discretion change the Executive's position, authority and duties and may change the location where Executive's services shall be performed; provided that during the portion of the Post-Change Employment Period commencing on the Merger of Equals Cessation Date, Section 2.1(a) shall be applicable in respect of changes in Executive's position, authority and duties occurring on or after such date, except that all references to "Effective Date" in such clause shall instead refer to the Merger of Equals Cessation Date.

(c) Imminent Control Change Period. During any Imminent Control Change Period, the Company may in its discretion change the Executive's position, authority and duties and may change the location where Executive's services shall be performed; provided, however, that if the Imminent Control Change Period culminates in a Consummation Date, then, in determining whether the Executive's Termination of Employment is for Good Reason, "Good Reason" shall be determined as though the provisions of Sections 2.1(a) and (b) applied commencing with the first day of the Imminent Control Change Period and in determining whether Executive's Termination of Employment is for Cause, "Cause" shall be determined as though the provisions of Section 2.1(d) applied commencing with the first day of the Imminent Control Change Period.

18

(d) Executive's Obligations. During the Post-Change Employment Period, (other than any periods of paid time off, sick leave or disability to which Executive is entitled), Executive agrees to devote Executive's full attention and time to the business and affairs of the Company and, to the extent necessary to discharge the duties assigned to Executive in accordance with this Agreement, to use Executive's best efforts to perform such duties. During the Post-Change Employment Period, Executive may (i) serve on corporate, civic or charitable boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach at educational institutions and (iii) manage personal investments, so long as such activities are consistent with the Plans of the Company at the Effective Date and do not significantly interfere with the performance of Executive's duties under this Agreement. To the extent that any such activities have been conducted by Executive immediately prior to the Effective Date, and were consistent with the Plans of the Company at the Effective Date the continued conduct of such activities (or activities similar in nature and scope) after the Effective Date, shall not be deemed to interfere with the performance of Executive's duties under this Agreement.

22. Compensation.

(a) Base Salary.

(i) Post-Change Employment Period. During the Post-Change Employment Period, the Company shall pay or cause to be paid to Executive an annual base salary in cash, unless modified by Section (a)(ii) or (a)(iii) below, which shall be paid in a manner consistent with the Company's payroll practices in effect immediately before the Effective Date at an annual rate not less than 12 times the highest monthly base salary paid or payable to Executive by the Company in respect of the 12-month period immediately before the Effective Date (such annual rate salary, the "Base Salary). During the Post-Change Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary awarded to other peer executives of the Company.

(ii) Merger of Equals. Section 2.2(a)(i) shall apply in the case of a Merger of Equals.

(iii) Imminent Control Change Period. Section 2.2(a)(i) and (ii) shall not apply during an Imminent Control Change Period; provided, however, that if the Imminent Control Change Period culminates in a Consummation Date, then, in determining whether the Executive's Termination of Employment is for Good Reason, "Good Reason" shall be determined as though the provisions of Sections 2.2(a)(i) and (ii) applied commencing with the first day of the Imminent Control Change Period.

Any increase in Base Salary shall not limit or reduce any other obligation of the Company to Executive under this Agreement. After any such increase, the Base Salary shall not be reduced and the term "Base Salary" shall thereafter refer to the increased amount; provided, however, that Base Salary may be reduced as part of

a broad-based compensation reduction applicable to other peer executives of the Company.

(b) Annual Bonus.

(i) Post-Change Employment Period. In addition to Base Salary, the Company shall provide, unless modified by Section (b)(ii) or (b)(iii) below, to Executive the opportunity to receive payment of an annual bonus (the "Annual Bonus") with a bonus opportunity no less than and target performance goals no higher than those in effect immediately prior to the Effective Date for each Annual Performance Period which ends during the Post-Change Employment Period. "Annual Performance Period" means each period of time designated in accordance with any annual bonus arrangement, including the Principal Incentive Pay Plan ("Prin Pay") and any successor thereto, (a "Bonus Plan") which is based upon performance and approved by the Board or any committee of the Board, or in the absence of any Bonus Plan or any such designated period of time, each calendar year.

(ii) Merger of Equals. Section 2.2(b)(i) shall apply in the case of a Merger of Equals.

(iii) Imminent Control Change Period. Section 2.2(b)(i) and (ii) shall not apply during an Imminent Control Change Period; provided, however, that if the Imminent Control Change Period culminates in a Consummation Date, then, in determining whether the Executive's Termination of Employment is for "Good Reason" shall be determined as though the provisions of Sections 2.2(b)(i) and (ii) applied commencing with the first day of the Imminent Control Change Period.

(c) Other Compensation and Benefits.

(i) Post-Change Employment Period In addition to Base Salary and Annual Bonus, the Company shall, throughout the Post-Change Employment Period, unless modified by Section (c)(ii) or (c)(iii) below, provide the following other compensation and benefits to Executive, provided that, in no event shall such additional compensation and benefits be materially less favorable, in the aggregate, than the most favorable compensation and benefits provided by the Company to Executive (including any such compensation and benefits provided under Plans) at any time during the 90-day period immediately before the Effective Date:

(1) LTIP Awards. LTIP Awards shall be granted to Executive at least as frequently as LTIP Awards were granted during the three-year period immediately preceding the Effective Date, with target payments no less than the average (expressed as a percentage of Executive's Base Salary in effect at the beginning of the applicable Performance Period) of the Executive's LTIP Awards outstanding immediately prior to the Effective Date, with target performance goals substantially comparable to

the target performance goals under Executive's LTIP Awards outstanding on the Effective Date;

(2) Incentive, Savings and Retirement Plans. Executive shall be eligible to participate in all incentive (including long-term incentives), savings and retirement Plans applicable to other peer executives of the Company;

(3) Welfare Benefit Plans. Executive and Executive's family shall be eligible to participate in, and receive all benefits under, welfare benefit Plans provided by the Company (including medical, prescription, dental, disability, salary continuance, individual life, group life, dependent life, accidental death and travel accident insurance Plans) and applicable to other peer executives of the Company and their families;

(4) Fringe Benefits. Executive shall be entitled to fringe benefits in accordance with the most favorable Plans applicable to peer executives of the Company;

(5) Expenses. Executive shall be entitled to prompt reimbursement of all reasonable employment-related expenses incurred by Executive upon the Company's receipt of accountings in accordance with the most favorable Plans applicable to peer executives of the Company;

(6) Office and Support Staff. Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance in accordance with the most favorable Plans in effect prior to the Change of Control; and

(7) Vacation. Executive shall be entitled to paid time off in accordance with the most favorable Plans applicable to peer executives of the Company.

(ii) Merger of Equals. Section 2.2(c)(i) shall not apply in the case of a Merger of Equals until the Merger of Equals Cessation Date, if any, at which time Section 2.2(c)(i) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date wherever such term appears. During a Post-Merger of Equals Period, the Executive shall be entitled to aggregate compensation benefits and perquisites no less than those provided in the aggregate to other peer executives of the Company.

(iii) Imminent Control Change Period. Section 2.2(c)(i) and (ii) shall not apply during an Imminent Control Change Period; provided, however, that if the Imminent Control Change Period culminates in a Consummation Date, then, in determining whether the Executive's Termination of Employment is for "Good Reason" shall be determined as though the provisions of Sections 2.2(c)(i) and (ii) applied commencing with the first day of the Imminent Control Change Period.

2.3 Stock Incentive Awards.

(a) Change of Control that is not a Merger of Equals. On the Effective Date, except as provided in Section 2.3(b) or (c) below, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding stock options, stock appreciation rights, or similar incentive awards (collectively, "Stock Options") and (ii) become fully vested in all shares of restricted stock or restricted stock units and similar awards ("Restricted Shares"). Notwithstanding the foregoing, if the Effective Date is a Reorganization Transaction and if so provided under the agreement pursuant to which the Reorganization Transaction is effected, then all Executive's Stock Options shall (x) be extinguished for such consideration as is provided for vested options under such agreement or (y) be converted into options to purchase the stock of the Surviving Corporation, and such converted options shall be subject to the same option terms and restrictions as those applicable on the Effective Date.

(b) Merger of Equals. Section 2.3(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.3(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date wherever such term appears.

(c) Imminent Control Change Period. Section 2.3(a) and (b) shall not apply during an Imminent Control Change Period; provided, however, that if the Executive has a Termination of Employment described in Section 4.4 and the Imminent Control Change Period culminates in a Consummation Date, then stock options and restricted shares shall be treated as described in Sections 4.4(f), (g) and (h).

2.4 Unfunded Deferred Compensation.

(a) Change of Control that is not a Merger of Equals. On the Effective Date, except as provided in Section 2.4(b) or (c) below, Executive shall become fully vested in all benefits previously accrued under any deferred compensation Plan (including a SERP and defined contribution excess plan) that is not qualified under Section 401(a) of the Code. To the extent not so provided under such non-qualified Plan, within ten business days after the Effective Date, the Company shall pay or cause to be paid to Executive a lump-sum cash amount equal to:

(i) the sum of the Lump-Sum Values of all Maximum Annuities that are payable pursuant to all such non-qualified plans that are defined benefit Plans, plus

(ii) the sum of Executive's account balances under all non-qualified plans that are defined contribution Plans.

(b) Merger of Equals. Section 2.4(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 2.4(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date wherever such term appears.

(c) Imminent Control Change Period. Section 2.4(a) and (b) shall not apply during an Imminent Control Change Period.

Executive shall have the opportunity to waive the accelerated vesting and lump-sum payment at any time prior to the earlier of (i) the 15th day after the date of an Imminent Control Change or (ii) the 30th day prior to a Change of Control which is not preceded by an Imminent Control Change; provided, however, that in no event shall the waiver be allowed on the Effective-Date or thereafter.

2.5 Pro-rata Annual Bonus.

(a) Change of Control that is not a Merger of Equals. Except as provided in Section 25(b) or (c) below, to the extent not so provided by the Bonus Plan, the Company shall pay or cause to be paid to Executive within ten business days after the Effective Date, a lump-sum cash payment equal to the Pro-rata Annual Bonus, in satisfaction of the Company's obligations under the Bonus Plan for periods prior to the Effective Date.

(b) Merger of Equals. Section 2.5(a) shall not apply in the case of a Merger of Equals unless (i) there occurs a Merger of Equals Cessation Date, at which time Section 2.4(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date.

(c) Imminent Control Change Period. Section 2.4(a) and (b) shall not apply during an Imminent Control Change Period.

2.6 Pro-rata LTIP Bonus.

(a) Change of Control that is not a Merger of Equals. Except as provided in Section 2.6(b) or (c) below, to the extent not so provided by the LTIP or New LTIP, as applicable, the Company shall pay or cause to be paid, within ten business days after the Effective Date a lump-sum cash payment equal to the sum of (i) the Pro-rata LTIP Bonus and (ii) all Accrued LTIP Bonuses, in satisfaction of the Company's obligations under the LTIP and New LTIP for periods prior to the Effective Date.

(b) Merger of Equals. Section 2.6(a) shall not apply in the case of a Merger of Equals unless (i) there occurs a Merger of Equals Cessation Date, at which time Section 2.6(a) shall be applied by substituting the Merger of Equals Cessation Date for the Effective Date.

(c) Imminent Control Change Period. Section 2.6(a) and (b) shall not apply during an Imminent Control Change Period.

ARTICLE III.

TERMINATION OF EMPLOYMENT

3.1 Disability.

(a) During the Post-Change Employment Period or any Imminent Change Period, the Company may terminate Executive's employment at any time because of Executive's Disability by giving Executive or his legal representative, as applicable, (i) written notice in accordance with Section 10.8 of the Company's intention to terminate Executive's employment pursuant to this Section and (ii) a certification of Executive's Disability by a physician selected by the Company or its insurers, subject to the consent of Executive or Executive's legal representative, which consent shall not be unreasonably withheld or delayed. Executive's employment shall terminate effective on the 30th day after Executive's receipt of such notice (which such 30th day shall be deemed to be the date of the Disability) unless, before such 30th day, Executive shall have resumed the full-time performance of Executive's duties.

(b) "Disability" means any medically determinable physical or mental impairment that has lasted for a continuous period of not less than six months and can be expected to be permanent or of indefinite duration, and that renders Executive unable to perform the duties required under this Agreement.

3.2 Death. Executive's employment shall terminate automatically upon Executive's death during the Post-Change Employment Period or Imminent Control Change Period.

3.3 Termination for Cause.

(a) Change of Control that is not a Merger of Equals. During the Post-Change Employment Period that is not a Post-Merger of Equals Period, the Company may terminate Executive's employment for Cause solely in accordance with all of the substantive and procedural provisions of this Section 3.3(a).

(i) Definition of Cause. For purposes of this section 3.3(a), "Cause" means any one or more of the following:

(1) Executive's commission of a felony or other crime involving fraud, dishonesty or moral turpitude;

(2) Executive's willful or reckless material misconduct in the performance of Executive's duties;

(3) Executive's habitual neglect of duties; or

(4) Executive's willful or intentional breach of this Agreement;

provided, however, that for purposes of clauses (2), (3) and (4), Cause shall not include any one or more of the following:

(A) Executive's bad judgment

(B) Executive's negligence, other than Executive's habitual neglect of duties or gross negligence;

(C) any act or omission believed by Executive in good faith to have been in or not opposed to the interest of the Company (without intent of Executive to gain, directly or indirectly, a profit to which Executive was not legally entitled); or

(D) failure to meet performance goals, objectives or measures following good faith efforts to meet such goals, objectives or measures; and

further provided that, if a breach of this Agreement involved an act, or a failure to act, which was done, or omitted to be done, by Executive in good faith and with a reasonable belief that Executive's act, or failure to act, was in the best interests of the Company or was required by applicable law or administrative regulation, such breach shall not constitute Cause if, within 30 days after Executive is given written notice of such breach that specifically refers to this Section, Executive cures such breach to the fullest extent that it is curable.

(ii) Procedural Requirements for Termination for Cause. The Company shall strictly observe each of the following procedures:

(1) Board Meeting. A meeting of the Board shall be called for the stated purpose of determining whether Executive's acts or omissions constitute Cause and, if so, whether to terminate Executive's employment for Cause.

(2) Notice of Consideration. Not less than 30 days prior to the date of such meeting the Company shall provide Executive and each member of the Board written notice (a "Notice of Consideration") of (x) a detailed description of the acts or omissions alleged to constitute Cause, (y) the date, time and location of such meeting of the Board, and (z) Executive's rights under clause (3) below.

(3) Opportunity to Present Response. Executive shall have the opportunity to appear before the Board in person and, at Executive's option, with legal counsel, and/or to present to the Board a written response to the Notice of Consideration.

(4) Cause Determination. Executive's employment may be terminated for Cause only if (x) the acts or omissions specified in the Notice of Consideration did in fact occur and do constitute Cause as defined in this Section, (y) the Board makes a specific determination to such effect and to the effect that Executive's employment should be terminated for Cause ("Cause Determination") and (z) the Company thereafter provides Executive with a Notice of Termination which specifies in specific detail the basis of such Termination of Employment for Cause and which Notice shall be consistent with the reasons set forth in the Notice of Consideration. The Cause Determination shall require the affirmative vote of at least 66-2/3% of the members of the Board.

(iii) Standard of Review. In the event that the existence of Cause shall become an issue in any action or proceeding between the Company and Executive, the Company shall, notwithstanding the Cause determination referenced in clause (4)(y) of Section 3.3(a)(ii), have the burden of establishing that the actions or omissions specified in the Notice of Consideration did in fact occur and do constitute Cause and that the Company has satisfied the procedural requirements of Section 3.3(a)(ii).

(b) Merger of Equals. Section 3.3(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 3.3(a) shall apply to any termination for Cause during the Post-Change Employment Period for which the Notice of Consideration is given on or after the Merger of Equals Cessation Date. During any Post-Merger of Equals Period, the Company may terminate Executive's employment for Cause solely in accordance with all of the substantive and procedural provisions of this Section 3.3(b).

(i) Definition of Cause. For purposes of this Section 3.3(b), "Cause" shall have the same meaning as in Section 3.3(a)(i).

(ii) Procedural Requirements for Termination for Cause. The Company shall strictly observe the procedures set forth in Section 3.3(a)(ii), except that

(1) If the Notice of Consideration is given to Executive during a Post-Merger of Equals Period, Executive shall have the opportunity to present to the board a written response to the Notice of Consideration, but shall not have the right to appear in person or by counsel before the Board; and

(2) The Cause Determination shall require the affirmative vote of a simple majority of the members of the Board.

(iii) Standard of Review. If the Notice of Consideration is given to Executive during a Post-Merger of Equals Period, then in the event that the existence of Cause shall become an issue in any action or proceeding between the Company and Executive, the Board's Cause determination referenced in clause (4)(y) of Section 3.3(a)(ii) shall be binding on all parties.

(c) Imminent Control Change Period. This Section 3.3 shall not apply during any Imminent Control Change Period that does not culminate in a Consummation Date. In the case of an Imminent Control Change Period that culminates in a Consummation Date, no termination of Executive's employment during the Imminent Control Change Period shall be deemed to have been for Cause unless all the substantive and procedural provisions of Section 3.3(c) shall have been satisfied:

(i) Definition of Cause. For purposes of this Section 3.3(c), "Cause" shall have the meaning as in Section 3.3(a)(i), except that, for purposes of clauses

(2), (3) and (4) of Section 3.3(a)(i), Cause shall not exclude failure to meet performance goals, objectives or measures.

(ii) Procedural Requirements for Termination for Cause. To qualify as a termination for Cause, a termination by the Company during the Imminent Control Change Period shall have strictly complied with the procedures set forth in Section 3.3(b)(ii), substituting the phrase Imminent Control Change Period for Post-Merger of Equals Period wherever it appears.

(iii) Standard of Review. If the Notice of Consideration is given to Executive during an Imminent Control Change Period, then in the event that the existence of Cause shall become an issue in any action or proceeding between the Company and Executive, the Board's Cause determination referenced in clause (4)(y) of Section 3.3(a)(ii) shall be binding on all parties.

3.4 Good Reason.

(a) Change of Control that is not a Merger of Equals. During the Post-Change Employment Period that is not a Merger of Equals, Executive may terminate his or her employment for Good Reason in accordance with the substantive and procedural provisions of this Section 3.4(a).

(i) Good Reason Definition. For purposes of this Section 3.4(a), "Good Reason" means the occurrence of any one or more of the following actions or omissions during the Post-Change Employment Period other than during a Post-Merger of Equals Period:

(1) any failure to pay Executive's Base Salary in violation of Section 2.2(a) or any failure to increase Executive's Base Salary to the extent, if any, required by such Section;

(2) any failure to pay Executive's Annual Bonus or any reduction in Executive's bonus opportunity, in either case in violation of Section 2.2(b);

(3) any material adverse change in Executive's position (including offices, titles, or reporting requirements, but not reporting responsibilities), authority or duties as contemplated by Section 2.1(a)(i);

(4) any material reduction in aggregate compensation and benefits as provided in Article II;

(5) requiring Executive to be based at any office or location other than the location specified in Section 2.1(a);

(6) any other material breach of this Agreement by the Company;

(7) any Termination of Employment by the Company that purports to be for Cause, but is not in full compliance with all of the substantive and procedural requirements of this Agreement (any such purported termination shall be treated as a Termination of Employment without Cause for all purposes of this Agreement); or

(8) the failure at any time of a successor to the Company explicitly to assume and agree to be bound by this Agreement.

(ii) Determination of Good Reason. Any reasonable determination by Executive that any of the events specified in subsection (i) above has occurred and constitutes Good Reason shall be conclusive and binding for all purposes, unless the Company establishes that Executive did not have any reasonable basis for such determination.

(b) Merger of Equals. Section 3.4(a) shall not apply in the case of a Merger of Equals unless there occurs a Merger of Equals Cessation Date, at which time Section 3.4(a) shall apply to any termination for Good Reason during the Post-Change Employment Period for which the event(s) constituting Good Reason occurred on or after the Merger of Equals Cessation Date. During any Post-Merger of Equals Period, the Executive may terminate his or her employment for Good Reason in accordance with the substantive and procedural provisions of this Section 3.4(b).

(i) Definition of Good Reason. For purposes of this Section 3.4(b), "Good Reason" shall have the same meaning as in Section 3.4(a)(i), except that (1) the act or omission shall have occurred during the Post-Merger of Equals Period, and (2) clauses 3.4(a)(i)(3) and (5) shall not apply.

(ii) Determination of Good Reason. Executive's determination that an event constituting Good Reason has occurred during a Post-Merger of Equals Period shall not be entitled to any presumptive validity or other deference by a court.

(c) Imminent Control Change Period. This Section 3.4 shall not apply during any Imminent Control Change Period that does not culminate in a Consummation Date. In the case of an Imminent Control Change Period that culminates in a Consummation Date, no termination of Executive's employment during the Imminent Control Change Period shall be deemed to have been for Good Reason unless all the substantive and procedural provisions of this Section 3.4(c) shall have been satisfied:

(i) Definition of Good Reason. For purposes of this Section 3.4(b), "Good Reason" shall have the same meaning as in Section 3.4(a)(i), except that (1) the act or omission shall have occurred during the Imminent Control Change Period, and (2) clauses 3.4(a)(i)(3) and (5) shall not apply.

(ii) Determination of Good Reason. Executive's determination that an event constituting Good Reason has occurred during an Imminent Control Change

Period shall not be entitled to any presumptive validity or other deference by a court.

(d) Notice by Executive. In the event of any Termination of Employment by Executive for Good Reason, Executive shall as soon as practicable thereafter notify the Company of the events constituting such Good Reason by a Notice of Termination. A delay in the delivery of such Notice of Termination or a failure by Executive to include in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason shall not waive any right of Executive under this Agreement or preclude Executive from asserting such fact or circumstance in enforcing rights under this Agreement; provided that no act or omission by the Company shall qualify as Good Reason (i) if Executive's Termination of Employment occurs more than 12 months after Executive first obtains actual knowledge of such act or omission or (ii) during a Post-Merger of Equals Period 12 months after the first date on which Executive obtained actual knowledge of the fact that no Merger of Equals has occurred or that a Merger of Equals Cessation has occurred.

ARTICLE IV.

COMPANY'S OBLIGATIONS UPON CERTAIN TERMINATIONS OF EMPLOYMENT

4.1 Termination During the Post-Change Employment Period. If, during the Post-Change Employment Period (other than during a Post-Merger of Equals Period) the Company terminates Executive's employment other than for Cause or Disability, or Executive terminates employment for Good Reason, the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Severance Payments. The Company shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount equal to the sum of the following, no more than ten business days after the Termination Date:

(i) Accrued Obligations. all Accrued Obligations;

(ii) Prorated Annual Bonus for Year of Termination. Executive's Pro-rata Annual Bonus reduced (but not below zero) by the amount of any Annual Bonus paid to Executive with respect to the Company's fiscal year in which the Termination Date occurs, whether paid under Section 2.5 or otherwise;

(iii) Prorated LTIP Bonus. Executive's Pro-rata LTIP Bonus reduced (but not below zero) by the amount of any LTIP Bonus paid to Executive with respect to the LTIP Performance Periods not completed as of the Termination Date, whether such amount was paid under Section 2.6 or otherwise;

(iv) Deferred Pensions and Pension Enhancements. The sum of

(1) all amounts previously deferred by, or accrued to the benefit of, Executive under any defined contribution non-qualified plans (as described in Section 2.4), whether vested or unvested, together with

any accrued earnings thereon, to the extent that such amounts and earnings have not been previously paid by the Company (whether pursuant to Section 2.4 or otherwise) or are provided under the terms of such non-qualified Plan; plus

(2) an amount equal to the positive difference, if any, between:

(A) the sum of the Lump-Sum Values of each Maximum Annuity that would be payable to Executive under any defined benefit Plan (whether or not qualified under Section 401(a)) if Executive had:

(1) become fully vested in all such previously unvested benefits,

(2) accrued a number of years of service (for purposes of determining the amount of such benefits, entitlement to early retirement benefits, and all other purposes of such defined benefit plans) that is three years greater than the number of years of service actually accrued by Executive as of the Termination Date, and

(3) received the lump-sum severance benefits specified in Section 4.1(a) (excluding LTIP Bonuses and any amounts in respect of Stock Options or Restricted Shares, if any, including severance multiples thereof) as covered compensation in equal monthly installments during the period of three years following the Termination Date,

minus

(B) the sum of (x) the Lump-Sum Values of the Maximum Annuity benefits actually payable to Executive under each defined-benefit Plan that is qualified under Section 401(a) of the Code and (y) the aggregate amounts previously paid (whether pursuant to Section 2.4 or otherwise) to Executive under the defined benefit Plans (whether or not qualified under Section 401(a) of the Code) described in clause (A) of this Section 4.1(a)(iv)(2).

(v) Multiple of Salary. Bonus and LTIP. An amount equal to three (3.0) times the sum of (x) Base Salary, (y) the Target Annual Bonus, and (z) the Annualized Target LTIP Bonus, each determined as of the Termination Date; provided, however, that any reduction in Executive's Base Salary or Annual Bonus that would qualify as Good Reason shall be disregarded for purposes of this clause (v); and provided further, that the Annualized Target LTIP Bonus in clause (z) of this Section 4.1(a)(v) shall not be included in the sum referenced above if the Termination Date occurs on or after the third anniversary of the date

the Company first makes a grant of stock options to a peer executive of the Company pursuant to a written employee stock option plan applicable to peer executives of the Company; and

(vi) Unvested Defined Contribution Plan. To the extent not paid pursuant to clause (iv) of this Section 4.1(a), an amount equal to the sum of the value of the unvested portion of Executive's accounts or accrued benefits under any unqualified or qualified defined contribution retirement plan maintained by the Company as of the Termination Date and forfeited by Executive by reason of the Termination of Employment.

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits (including medical, prescription, dental, disability, salary continuance, individual life, group life, accidental death and travel accident insurance plans and programs) which are at least as favorable as the most favorable Plans of the Company applicable to peer executives who are actively employed after the Termination Date and their families. The cost of such welfare benefits to Executive shall not exceed the cost of such benefits to actively employed peer executives of the Company as applicable from time to time. Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code. Notwithstanding anything herein to the contrary, such welfare benefits shall be secondary to any similar welfare benefits provided by the Executive's subsequent employer (if any).

(c) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by Executive to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000.

(d) Indemnification. The Executive shall be indemnified and held harmless by the Companies to the greatest extent permitted under applicable Iowa law (or the law of the State of incorporation of any successor or Surviving Corporation) as the same now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits a Company to provide broader indemnification than was permitted prior to such amendment) and the Companies' respective by-laws as such exist on the Agreement Date if the Executive was, is, or is threatened to be, made a party to any pending, completed or threatened action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative, and whether formal or informal, by reason of the fact that the Executive is or was, or had agreed to become, a director, officer, employee, agent, or fiduciary of a Company or any other entity which the Executive is or was serving at the request of a Company ("Proceeding"), against all expenses (including all reasonable attorneys' fees) and all claims, damages, liabilities and losses incurred or suffered by the Executive or to which the Executive may become subject for any reason. A Proceeding shall not include any proceeding to the extent it concerns or relates to a matter described in Section 6.1(a) (concerning reimbursement of

certain costs and expenses). Upon receipt from Executive of (i) a written request for an advancement of expenses, which Executive reasonably believes will be subject to indemnification hereunder and (ii) a written undertaking by Executive to repay any such amounts if it shall ultimately be determined that Executive is not entitled to indemnification under this Agreement or otherwise, Mutual shall advance such expenses to Executive or pay such expenses for Executive, all in advance of the final disposition of any such matter.

(e) Directors' and Officers' Liability Insurance. For a period of six years after the Termination Date, the Companies shall provide Executive with coverage under a directors' and officers' liability insurance policy in amounts no less than, and on terms no less favorable than, those provided to senior executive officers and directors of the Companies on the Effective Date.

(f) Stock Incentive Awards. Immediately prior to the Executive's Termination of Employment, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding Stock Options and (ii) become fully vested in all Restricted Shares.

4.2 Termination During a Post-Merger of Equals Period. If, during a Post-Merger of Equals Period, the Company terminates Executive's employment other than for Cause or Disability, or if Executive terminates employment for Good Reason, the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Severance Payments. The Company shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount, no more than thirty business days after the Termination Date, equal to the sum of all amounts described in Section 4.1(a).

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits with the same scope and cost as described in Section 4.1(b). Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code. Notwithstanding anything herein to the contrary, such welfare benefits shall be secondary to any similar welfare benefits provided by the Executive's subsequent employer (if any).

(c) Stock Incentive Awards. Immediately prior to the Executive's Termination of Employment, Executive shall (i) become fully vested in, and may thereafter exercise in whole or in part, in accordance with the terms thereof, all outstanding Stock Options and (ii) become fully vested in all Restricted Shares.

(d) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by the Company to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000.

(e) Indemnification. The Executive shall be indemnified and held harmless by the Companies to the same extent as provided in Section 4.1(d).

(f) Directors' and Officers' Liability Insurance. The Companies shall provide Executive with Directors' and Officers' Liability Insurance to the same extent as provided in Section 4.1(e).

4.3 Termination During an Imminent Control Change Period (with no Change of Control). If, during an Imminent Control Change Period, the Company terminates Executive's employment other than for Disability and other than for a reason that would constitute Cause if there were a Change of Control, or if Executive terminates employment for a reason that would constitute Good Reason if there were a Change of Control, and in either case the Imminent Control Change Period does not culminate in a Consummation Date, the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Continuation of Welfare Benefits. Until the earlier of (i) the third anniversary of the Termination Date or (ii) the last day of the Imminent Control Change Period (or such later date as any Plan may specify), the Company shall continue to provide to Executive and Executive's family welfare benefits with the same scope and cost as described in Section 4.1(b). Executive's rights under this Section shall be considered a part of, and shall therefore reduce, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including, continuation coverage required by Section 4980 of the Code. Notwithstanding anything herein to the contrary, such welfare benefits shall be secondary to any similar welfare benefits provided by the Executive's subsequent employer (if any).

(b) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by the Company to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000. Notwithstanding the foregoing, all outplacement amounts payable pursuant to this Section 4.3(b) shall be reduced (but not below zero) by outplacement amounts paid to Executive on account of a Termination Date prior to the date payment is made under this Section 4.3(b).

(c) Indemnification. The Executive shall be indemnified and held harmless by the Companies to the same extent as provided in Section 4.1(d), but only during the Imminent Control Change Period.

(d) Directors' and Officers' Liability Insurance. The Companies shall provide the same level of directors' and officers' liability insurance for Executive as provided in Section 4.1(e), but only during the Imminent Control Change Period.

(e) Vested Stock Options. Executive's vested Stock Options will:

(i) not expire (unless such Stock Options would have expired had Executive remained an employee of the Company) during the Imminent Control Change Period; and

(ii) continue to be exercisable after the Termination Date to the extent provided in the applicable grant agreement or Plan, and thereafter, such Stock Options shall not be exercisable during the Imminent Control Change Period.

Upon the date the Imminent Control Change lapses without a Consummation Date Executive's vested Stock Options may be exercised, in whole or in part, during the 30-day period following the lapse of the Imminent Control Change, (but in no case shall Stock Options remain exercisable after the date on which such Stock Options would have expired if Executive had remained an employee of the Company).

(f) Unvested Stock Options. Executive's unvested Stock Options will:

(i) not expire (unless such Stock Options would have expired had Executive remained an employee of the Company) during the Imminent Control Change Period; and

(ii) not continue to vest and not be exercisable during the Imminent Control Change Period.

Upon the date the Imminent Control Change lapses without a Consummation Date, such unvested Stock Options will expire.

(g) Restricted Shares. Executive's unvested Restricted Shares will:

(i) not be forfeited during the Imminent Control Change Period; and

(ii) not continue to vest during the Imminent Control Change Period.

Upon the date the Imminent Control Change lapses without a Consummation Date, such unvested Restricted Stock shall be forfeited.

4.4 Termination During an Imminent Control Change Period (which Culminates in a Change of Control). If, during an Imminent Control Change Period that culminates in a Consummation Date, the Company terminates Executive's employment other than for Cause or Disability, or if Executive terminates employment for Good Reason, the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) Cash Severance Payments. The Company shall pay Executive, in addition to all vested rights arising from Executive's employment as specified in Article II, a lump-sum cash amount equal to the sum of all amounts described in Section 4.1(a). Such amount shall be paid no more than ten business days after an Effective Date that does not qualify as a Merger of Equals and no more than 30 business days after an Effective Date which does qualify as a Merger of Equals. Notwithstanding the foregoing, all amounts paid pursuant to this Section 4.4(a) shall be reduced (but not below zero) by amounts paid to Executive on account of the Termination of Employment, to the extent such amounts would reasonably be considered duplicative, prior to the date payment is made under this Section 4.4(a).

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify, the Company shall continue to provide to Executive and Executive's family welfare benefits with the same scope and cost as described in Section 4.1 (b). Executive's rights under this Section shall be in addition to, and not in lieu of, any post-termination continuation coverage or conversion rights Executive may have pursuant to applicable law, including continuation coverage required by Section 4980 of the Code. Notwithstanding the foregoing, such welfare benefits shall be secondary to any similar welfare benefits provided by the Executive's subsequent employer (if any).

(c) Outplacement. The Company shall pay on behalf of Executive reasonable fees and costs charged by the outplacement firm selected by the Company to provide outplacement services to Executive after the Termination Date, within ten business days of its receipt of an invoice therefor, subject to a maximum of $30,000. Notwithstanding the foregoing, all outplacement amounts payable pursuant to this Section 4.4(c) shall be reduced (but not below zero) by outplacement amounts paid to Executive on account of such Termination Date but prior to the date payment is made pursuant to this Section 4.4(c).

(d) Indemnification. The Executive shall be indemnified and held harmless by the Companies to the same extent as provided in Section 4.1(d).

(e) Directors' and Officers' Liability Insurance. The Companies shall provide Executive with Directors' and Officers' liability insurance to the same extent as provided in Section 4.1(e).

(f) Unvested Stock Options. Executive's unvested Stock Options will:

(i) not expire (unless such Stock Options would have so expired had Executive remained an employee of the Company) during the Imminent Control Change Period;

(ii) not continue to vest during the Imminent Control Change Period; and

(iii) not be exercisable during the Imminent Control Change Period;

Immediately prior to the Consummation Date, such unvested Stock Options shall become fully vested, and may thereupon be exercised in whole or in part by the Executive at any time during the 30-day period following the Consummation Date (but in no case shall Stock Options remain exercisable after the date on which such Stock Options would have expired if Executive had remained an employee of the Company). Notwithstanding the foregoing, if the Consummation Date is a Reorganization Transaction and if so provided under the agreement pursuant to which the Reorganization Transaction is effected, then all Executive's Stock Options shall (a) be extinguished for such consideration as is provided for vested options under such agreement or (b) be converted into options to purchase the stock of the Surviving Corporation, and such converted options shall be subject to the same option terms and restrictions as those applicable on the Consummation Date.

(g) Vested Stock Options. Executive's vested Stock Options will:

(i) not expire (unless such Stock Options would have so expired had Executive remained an employee of the Company) during the Imminent Control Change Period; and

(ii) continue to be exercisable after the Termination Date to the extent provided in the applicable grant agreement or Plan, and thereafter, such Stock Options shall not be exercisable during the Imminent Control Change Period.

Upon the Consummation Date, such vested. Stock Options may be exercised by Executive in whole or in part, during the 30-day period following the Consummation Date, (but in no case shall Stock Options remain exercisable after the date on which such Stock Options would have expired if Executive had remained an employee of the Company). Notwithstanding any provision in this Section, if the Consummation Date is a Reorganization Transaction, and if so provided under the agreement pursuant to which such Reorganization Transaction is effected, then all of the Executive's vested Stock Options shall (a) be extinguished for such consideration as is provided for vested options under such agreement or (b) be converted into options to purchase the stock of the Surviving Corporation, and such converted options shall be subject to the same option terms as those applicable on the Consummation Date.

(h) Restricted Shares. Executive's unvested Restricted Shares will:

(i) not be forfeited during the Imminent Control Change Period; and

(ii) not continue to vest during the Imminent Control Change Period.

Immediately prior to the Consummation Date, Executive shall become fully vested in all of Executive's Restricted Stock and within ten business days after the Consummation Date, the Company shall deliver to Executive all of such shares theretofore held by or on behalf of the Company, which will be subject to the same terms which other stockholders of the Company receive in the transaction.

4.5 Waiver and Release. Notwithstanding anything herein to the contrary, the Company shall have no obligation to Executive under Section 4.1, 4.2, 4.3 or 4.4 or Article V unless and until Executive executes a release and waiver of Mutual and the Companies, in substantially the same form as attached hereto as Exhibit A.

4.6 Termination by the Company for Cause. If the Company terminates Executive's employment for Cause during the Post-Change Employment Period or Imminent Control Change Period, the Company's sole obligation to Executive under Articles II and IV shall be to pay Executive, pursuant to the Company's then-effective Plans, a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.7 Termination by Executive Other Than for Good Reason. If Executive elects to retire or otherwise terminate employment during the Post-Change Employment Period or Imminent Control Change Period other than for Good Reason, Disability or death, the

Company's sole obligation to Executive under Articles II and IV shall be to pay Executive, pursuant to the Company's then-effective Plans, a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.8 Termination by the Company for Disability. If the Company terminates Executive's employment by reason of Executive's Disability during the Post-Change Employment Period or Imminent Control Change Period, the Company's sole obligation to Executive under Articles II and IV shall be as follows:

(a) to pay Executive, pursuant to the Company's then-effective Plans, a lump-sum cash amount equal to all Accrued Obligations determined as of the Termination Date, and

(b) to provide Executive disability and other benefits after the Termination Date that are not less than the most favorable of such benefits then available under Plans of the Company to disabled peer executives of the Company.

If the Termination Date occurred during an Imminent Control Change Period which had a Consummation Date which is not also a Merger of Equals or a Post-Change Employment Period other than a Post-Merger of Equals Period, such disability and other benefits shall also be no less favorable, in the aggregate, than the most favorable of the disability and other benefits available to Executive under such Plans in effect at any time during the 90-day period immediately preceding (1) the Effective Date if such Termination Date occurred during a Post-Change Employment Period or (2) the date of the Imminent Control Change if such Termination Date occurred during an Imminent Control Change Period. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

4.9 If upon Death. If Executive's employment is terminated by reason of Executive's death during the Post-Change Employment Period or Imminent Control Change Period, the Company's sole obligations to Executive under Articles II and IV shall be as follows:

(a) to pay Executive's Beneficiary, pursuant to the Company's then-effective Plans, a lump-sum cash amount equal to all Accrued Obligations; and

(b) to provide Executive's Beneficiary survivor and other benefits that are not less than the most favorable survivor and other benefits then available under Plans of the Company to the estates or the surviving families of peer executives of the Company.

If the Termination Date occurred during an Imminent Control Change which had a Consummation Date which is not also a Merger of Equals or a Post-Change Employment Period other than a Post-Merger of Equals Period, such survivor benefits shall also be no less favorable, in the aggregate, than the most favorable of the survivor benefits available to Executive under such Plans in effect at any time during the 90-day period immediately preceding (1) the Effective Date if such Termination Date occurred during a Post-Change Employment Period or (2) the date of the Imminent Control Change if such Termination Date occurred during an Imminent Control Change Period. The LTIP Bonus shall be governed according to the terms of the LTIP and New LTIP, as applicable.

ARTICLE V.

CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY

5.1 Gross-Up Payment. If at any time or from time to time, it shall be determined by the Company's independent auditors, but only after an Effective Date, that any payment or other benefit to Executive pursuant to Article II or Article IV of this Agreement or otherwise ("Potential Parachute Payment") is or will become subject to the excise tax imposed by Section 4999 of the Code or any similar tax payable under any United States federal, state, local, foreign or other law ("Excise Taxes"), then the Company shall pay or cause to be paid a tax gross-up payment ("Gross-Up Payment") with respect to all such Excise Taxes and other. Taxes on the Gross-Up Payment. The Gross-Up Payment shall be an amount equal to the product of

(a) The amount of the Excise Taxes (calculated at the effective marginal rates of all federal, state, local, foreign or other law),

multiplied by

(b) A fraction (the "Gross-Up Multiple"), the numerator or which is one (1.O), and the denominator of which is one (1.O) minus the lesser of (i) the sum, expressed as a decimal fraction, of the effective marginal rates of any Taxes and any Excise Taxes applicable to the Gross-Up Payment or (ii).80. If different rates of tax are applicable to various portions of a Gross-Up Payment, the weighted average of such rates shall be used. For purposes of this section, Executive shall be deemed to be subject to the highest effective marginal rate of Taxes.

The Gross-Up Payment is intended to compensate Executive for all such Excise Taxes and any other Taxes payable by Executive with respect to the Gross-Up Payment. The Company shall pay or cause to be paid the Gross-Up Payment to Executive within ten (10) days of the calculation of such amount, but in no event after the Executive makes the payment to the IRS of such Excise Taxes.

5.2 Limitation on Gross-Up Payments.

(a) To the extent possible, any payments or other benefits to Executive pursuant to Article II and Article IV of this Agreement shall be allocated as consideration for Executive's entry into the covenants of Article VIII.

(b) Notwithstanding any other provision of this Article V, if the aggregate After-Tax Amount (as defined below) of the Potential Parachute Payments and Gross-Up Payment that, but for this Section 5.2, would be payable to Executive, does not exceed 110% of After-Tax Floor Amount (as defined below), then no Gross-Up Payment shall be made to Executive and the aggregate amount of Potential Parachute Payments payable to Executive shall be reduced (but not below the Floor Amount) to the largest amount which would both (i) not cause any Excise Tax to be payable by Executive and (ii) not cause any Potential Parachute Payments to become nondeductible by the Company by reason of Section 280G of the Code (or any successor provision). For purposes of the preceding sentence, Executive shall be deemed to be subject to the highest effective marginal rate of Taxes.

(c) For purposes of this Agreement:

(i) "After-Tax Amount" means the portion of a specified amount that would remain after payment of all Taxes paid or payable by Executive in respect of such specified amount;

(ii) "Floor Amount" means the greatest pre-tax amount of Potential Parachute Payments that could be paid to Executive without causing Executive to become liable for any Excise Taxes in connection therewith; and

(iii) "After-Tax Floor Amount" means the After-Tax Amount of the Floor Amount.

5.3 Additional Gross-up Amounts. If, for any reason (whether pursuant to subsequently enacted provisions of the Code, final regulations or published rulings of the IRS, or a final judgment of a court of competent jurisdiction) the Company's independent auditors later determine that the amount of Excise Taxes payable by Executive is greater than the amount initially determined pursuant to Section 5.1, then the Company shall, subject to Sections 5.2 and 5.4, pay Executive, within ten (10) days of such determination, or pay to the IRS as required by applicable law, an amount (which shall also be deemed a Gross-Up Payment) equal to the product of:

(a) the sum of (i) such additional Excise Taxes and (ii) any interest, penalties, expenses or other costs incurred by Executive as a result of having taken a position in accordance with a determination made pursuant to Section 5.1 or 5.4,

multiplied by

(b) the Gross-Up Multiple.

5.4 Amount Increased or Contested.

(a) Executive shall notify the Company in writing (an "Executive's Notice") of any claim by the IRS or other taxing authority (an "IRS Claim") that, if successful, would require the payment by Executive of Excise Taxes in respect of Potential Parachute Payments in an amount in excess of the amount of such Excise Taxes determined in accordance with Section 5.1. Executive's Notice shall include the nature and amount of such IRS Claim, the date on which such IRS Claim is due to be paid (the "IRS Claim Deadline"), and a copy of all notices and other documents or correspondence received by Executive in respect of such IRS Claim. Executive shall give the Executive's Notice as soon as practicable, but no later than the earlier of (i) 10 days after Executive first obtains actual knowledge of such IRS Claim or (ii) five days before the IRS Claim Deadline; provided, however, that any failure to give such Executive's Notice shall affect the Company's obligations under this Article only to the extent that the Company is actually prejudiced by such failure. If at least one business day before the IRS Claim Deadline the Company shall:

(i) deliver to Executive a written certificate from the Company's independent auditors ("Company Certificate") to the effect that, notwithstanding

the IRS Claim, the amount of Excise Taxes, interest or penalties payable by Executive is either zero or an amount less than the amount specified in the IRS Claim,

(ii) pay to Executive, or to the IRS as required by applicable law, an amount (which shall also be deemed a Gross-Up Payment) equal to difference between the product of (x) amount of Excise Taxes, interest and penalties specified in the Company Certificate, if any, multiplied by (y) the Gross-Up Multiple, less the portion of such product, if any, previously paid to Executive by the Company, and

(iii) direct Executive pursuant to Section 5.4(d) to contest the balance of the IRS Claim,

then Executive shall pay only the amount, if any, of Excise Taxes, interest and penalties specified in the Company Certificate. In no event shall Executive pay an IRS Claim earlier than 30 business days after having given an Executive's Notice to the Company (or, if sooner, the IRS Claim Deadline).

(b) At any time after the payment by Executive of any amount of Excise Taxes, other Taxes or related interest or penalties in respect of Potential Parachute Payments (including any such amount equal to or less than the amount of such Excise Taxes specified in any Company Certificate, or IRS Claim), the Company may in its discretion require Executive to pursue a claim for a refund (a "Refund Claim") of all or any portion of such Excise Taxes, other Taxes, interest or penalties as may be specified by the Company in a written notice to Executive.

(c) If the Company notifies Executive in writing that the Company desires Executive to contest an IRS Claim or to pursue a Refund Claim, Executive shall:

(i) give the Company all information that it reasonably requests in writing from time to time relating to such IRS Claim or Refund Claim, as applicable,

(ii) take such action in connection with such IRS Claim or Refund Claim (as applicable) as the Company reasonably requests in writing from time to time, including accepting legal representation with respect thereto by an attorney selected by the Company, subject to the approval of Executive (which approval shall not be unreasonably withheld or delayed),

(iii) cooperate with the Company in good faith to contest such IRS Claim or pursue such Refund Claim, as applicable,

(iv) permit the Company to participate in any proceedings relating to such IRS Claim or Refund Claim, as applicable, and

(v) contest such IRS Claim or prosecute Refund Claim (as applicable) to a determination before any administrative tribunal, in a court of initial

jurisdiction and in one or more appellate courts, as the Company may from time to time determine in its discretion.

The Company shall control all proceedings in connection with such IRS Claim or Refund Claim (as applicable) and in its discretion may cause Executive to pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the Internal Revenue Service or other taxing authority in respect of such IRS Claim or Refund Claim (as applicable); provided that (i) any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive relating to the IRS Claim is limited solely to such IRS Claim, (ii) the Company's control of the IRS Claim or Refund Claim (as applicable) shall be limited to issues with respect to which a Gross-Up Payment would be payable, and (iii) Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or other taxing authority.

(d) The Company may at any time in its discretion direct Executive to (i) contest the IRS Claim in any lawful manner or (ii) pay the amount specified in an IRS Claim and pursue a Refund Claim; provided, however, that if the Company directs Executive to pay an IRS Claim and pursue a Refund Claim, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify Executive, on an after-tax basis, for any Excise Tax or income tax, including related interest or penalties, imposed with respect to such advance.

(e) The Company shall pay directly all legal, accounting and other costs and expenses (including additional interest and penalties) incurred by the Company or Executive in connection with any IRS Claim or Refund Claim, as applicable, and shall indemnify Executive, on an after-tax basis, for any Excise Tax or income tax, including related interest and penalties, imposed as a result of such payment of costs and expenses.

5.5 Refunds. If, after the receipt by Executive or the IRS of any payment or advance of Excise Taxes or other Taxes by the Company pursuant to this Article, Executive receives any refund with respect to such Excise Taxes, Executive shall (subject to the Company's complying with any applicable requirements of Section 5.4) promptly pay the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5.4 or receipt by the IRS of an amount paid by the Company on behalf of the Executive pursuant to Section 5.4, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such determination within 30 days after the Company receives written notice of such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid. Any contest of a denial of refund shall be controlled by Section 5.4(d).

ARTICLE VI.

EXPENSES, INTEREST AND DISPUTE RESOLUTION

6.1 Legal Fees and Other Expenses.

(a) If, after the Agreement Date, Executive incurs legal fees or other expenses (including expert witness and accounting fees and arbitration costs and expenses under Section 6.3) in an effort to secure, preserve, or obtain benefits under this Agreement, the Company shall, regardless of the outcome of such effort, reimburse Executive on a current basis (in accordance with Section 6.1(b)) for such fees and expenses.

(b) Reimbursement of legal fees and expenses and gross-up payments shall be made monthly within 10 days after Executive's written submission of a request for reimbursement together with evidence that such fees and expenses were incurred.

(c) If Executive does not prevail (after exhaustion of all available judicial remedies) in respect of a claim by Executive or by the Company hereunder, and the Company establishes before a court of competent jurisdiction that Executive had no reasonable basis for Executive's claim hereunder, or for Executive's response to the Company's claim hereunder, or that Executive acted in bad faith, no further reimbursement for legal fees and expenses shall be due to Executive in respect of such claim and Executive shall refund any amounts previously reimbursed hereunder with respect to such claim.

6.2 Interest. If the Company does not pay any amount due to Executive under this Agreement within ten business days after such amount first became due and owing, interest shall accrue on such amount from the date it became due and owing until the date of payment at an annual rate equal to 300 basis points above the base commercial lending rate published in The Wall Street Journal in effect from time to time during the period of such nonpayment.

6.3 Binding Arbitration. Any dispute, controversy or claim arising out of or in connection with or relating to this Agreement or any breach or alleged breach thereof, or any benefit or alleged benefit hereunder, shall be submitted to and settled by binding arbitration in Des Moines, Iowa, in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Any dispute, controversy or claim submitted for resolution shall be submitted to three (3) arbitrators, each of whom is a nationally recognized executive compensation specialist. The Company involved in the dispute, controversy or claim, or Mutual if more than one Company is so involved, shall select one arbitrator, the Executive shall select one arbitrator and the third arbitrator shall be selected by the first two arbitrators. Any award rendered shall be final and conclusive upon the parties and a judgment thereon may be entered in the highest court of a forum, state or federal, having jurisdiction. The expenses of the arbitration shall be borne according to Section 6.1. No arbitration shall be commenced after the date when institution of legal or equitable proceedings based upon such subject matter would be barred by the applicable statute of limitations. Notwithstanding anything to the contrary contained in this Section 6.3 or elsewhere in this Agreement, either party may bring an action in the District Court of Polk County, or the United States District Court for the Southern District of Iowa, if jurisdiction there lies, in order to maintain the status quo ante of the parties. The "status quo ante" is defined as the last peaceable, uncontested status between the parties. However, neither the party bringing the action nor the party defending the action thereby waives its right to arbitration of any dispute, controversy or claim arising out of or in connection or relating to this Agreement. Notwithstanding anything to the contrary contained in this Section 6.3 or elsewhere in this Agreement, either party may seek relief in the form of specific performance, injunctive or other equitable relief in order to enforce the decision of the arbitrator(s). The parties agree that

in any arbitration commenced pursuant to this Agreement, the parties shall be entitled to such discovery (including depositions, requests for the production of documents and interrogatories) as would be available in a federal district court pursuant to Rules 26 through 37 of the Federal Rules of Civil Procedure. In the event that either party fails to comply with its discovery obligations hereunder, the arbitrator(s) shall have full power and authority to compel disclosure or impose sanctions to the full extent of Rule 37 of the Federal Rules of Civil Procedure.

ARTICLE VII.

NO SET-OFF OR MITIGATION

7.1 No Set-off by Company. Executive's right to receive when due the payments and other benefits provided for under this Agreement is absolute, unconditional and subject to no setoff, counterclaim or legal or equitable defense. Time is of the essence in the performance by the Company of its obligations under this Agreement. Any claim which the Company may have against Executive, whether for a breach of this Agreement or otherwise, shall be brought in a separate action or proceeding and not as part of any action or proceeding brought by Executive to enforce any rights against the Company under this Agreement.

7.2 No Mitigation. Executive shall not have any duty to mitigate the amounts payable by the Company under this Agreement by seeking new employment or self-employment following termination. Except as specifically otherwise provided in this Agreement, all amounts payable pursuant to this Agreement shall be paid without reduction regardless of any amounts of salary, compensation or other amounts which may be paid or payable to Executive as the result of Executive's employment by another employer or self-employment.

ARTICLE VIII.

CONFIDENTIALITY AND NONCOMPETITION

8.1 Confidential Information. The Executive acknowledges that in the course of performing services for the Companies and Affiliates, he may create, develop, learn of, receive or contribute non-public information, ideas, processes, methods, designs, devices, inventions, data, models and other information relating to the Companies and their Affiliates or their products, services, businesses, operations, employees or customers, whether in tangible or intangible form, and that the Companies or their Affiliates desire to protect and keep secret and confidential, including trade secrets and information from third parties that the Companies or their Affiliates are obligated to keep confidential ("Confidential Information"). Confidential Information shall not include: (i) information that is or becomes generally known through no fault of Executive; (ii) information received from a third party outside of the Company that was disclosed without a breach of any confidentiality obligation; or (iii) information approved for release by written authorization of the Company. The Executive recognizes that all such Confidential Information is the sole and exclusive property of the Companies and their Affiliates, and that disclosure of Confidential Information would cause damage to the Companies and their Affiliates. The Executive agrees that, except as required by the duties of his employment with any of the Companies or any of their and/or its Affiliates and except in connection with enforcing the Executive's rights under this Agreement or if compelled by a court or governmental agency, in each case provided that prior written notice is given to Mutual, he will

not, without the consent of Mutual, willfully disseminate or otherwise disclose, directly or indirectly, any Confidential Information obtained during his employment with any of the Companies or their Affiliates, and will take all necessary precautions to prevent disclosure, to any unauthorized individual or entity inside or outside the Company, and will not use the Confidential Information or permit its use for the benefit of Executive or any other person or entity other than the Companies or the Affiliates These obligations shall continue during and after the termination of Executive's employment (whether or not after a Change of Control or an Imminent Control Change).

8.2 Non-Competition. During the period beginning on the Agreement Date and ending on the first to occur of (x) the first anniversary of a Termination Date occurring during a Post-Change Employment Period or Imminent Control Change Period and caused by (I) a termination of Executive's employment by the Company other than for Disability or Cause or (II) a Termination of Employment by Executive for Good Reason, and, in either event of (I) or (II) of this Section 8.2, Executive receives benefits under Article IV, or (y) a Termination Date other than that described in clause (x) of this Section 8.2, Executive shall not at any time, directly or indirectly, in any capacity:

(a) engage or participate in, become employed by, serve as a director of, or render advisory or consulting or other services in connection with, any Competitive Business; provided, however, that after the Termination Date this Section 8.2 shall not preclude Executive from being an employee of, or consultant to, any business unit of a Competitive Business if (i) such business unit does not qualify as a Competitive Business in its own right and (ii) Executive does not have any direct or indirect involvement in, or responsibility for, any operations of such Competitive Business that cause it to qualify as a Competitive Business.

(b) make or retain any financial investment, whether in the form of equity or debt, or own any interest, in any Competitive Business. Nothing in this subsection shall, however, restrict Executive from making an investment in any Competitive Business if such investment does not (i) represent more than 1% of the aggregate market value of the outstanding capital stock or debt (as applicable) of such Competitive Business, (ii) give Executive any right or ability, directly or indirectly, to control or influence the policy decisions or management of such Competitive Business, and (iii) create a conflict of interest between Executive's duties under this Agreement and his interest in such investment.

8.3 Non-Solicitation. During the period beginning on the Agreement Date and ending on the first anniversary of any Termination Date, whether or not after a Change of Control or Imminent Control Change, Executive shall not, directly or indirectly:

(a) other than in connection with the good-faith performance of his duties as an officer of the Company, encourage any employee or agent of the Company to terminate his or her relationship with the Company;

(b) employ, engage as a consultant or adviser, or solicit the employment or engagement as a consultant or adviser, of any employee or agent of the Company (other

than by the Company or its Affiliates), or cause or encourage any Person to do any of the foregoing;

(c) establish (or take preliminary steps to establish) a business with, or encourage others to establish (or take preliminary steps to establish) a business with, any employee or agent of the Company; or

(d) interfere with the relationship of the Company with, or endeavor to entice away from the Company, any Person who or which at any time during the period commencing one year prior to the Agreement Date was or is a material customer or material supplier of, or maintained a material business relationship with, the Company.

8.4 Intellectual Property. During the employment period, whether or not after a Change of Control or Imminent Control Change, Executive shall disclose immediately to the Company all ideas, inventions and business plans that he makes, conceives, discovers or develops alone or with others during the course of his employment with the Company, including any inventions, modifications, discoveries, developments, improvements, computer programs, processes, products or procedures (whether or not protectable upon application by copyright, patent, trademark, trade secret or other proprietary rights) ("Work Product") that: (i) relate to the business of the Company or any customer or supplier to the Company or any of the products or services being developed, manufactured, sold or otherwise provided by the Company or that may be used in relation therewith; or (ii) result from tasks assigned to Executive by the Company; or (iii) result from the use of the premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Company. Executive agrees that any Work Product shall be the property of the Company and, if subject to copyright, shall be considered a "work made for hire" within the meaning of the Copyright Act of 1976, as amended (the "Act"). If and to the extent that any such Work Product is found as a matter of law not to be a "work made for hire" within the meaning of the Act, Executive expressly assigns to the Company all right, title and interest in and to the Work Product, and all copies thereof, and the copyright, patent, trademark, trade secret and all their proprietary rights in the Work Product, without further consideration, free from any claim, lien for balance due or rights of retention thereto on the part of Executive.

(a) The Company hereby notifies Executive that the preceding paragraph does not apply to any inventions for which no equipment, supplies, facility, or trade secret information of the Company was used and which was developed entirely on the Executive's own time, unless: (i) the invention relates (a) to the Company's business, or (b) to the Company's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by the Executive for the Company.

(b) Executive agrees that upon disclosure of Work Product to the Company, Executive will, during his employment and at any time thereafter, at the request and cost of the Company, execute all such documents and perform all such acts as the Company or its duly authorized agents may reasonably require: (i) to apply for, obtain and vest in the name of the Company alone (unless the Company otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world, and when so obtained or vested to renew and restore the same; and (ii) to defend any opposition

proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection.

(c) In the event that the Company is unable, after reasonable effort, to secure Executive's signature on any letters patent, copyright or other analogous protection relating to Work Product, whether because of Executive's physical or mental incapacity or for any other reason whatsoever, Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his agent and attorney-in-fact, to act for and on his behalf to execute and file any such application or applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent, copyright and other analogous protection with the same legal force and effect as if personally executed by Executive.

8.5 Reasonableness of Restrictive Covenants.

(a) Executive acknowledges that the covenants contained in Sections 8.1, 8.2, 8.3 and 8.4 are reasonable in the scope of the activities restricted, the geographic area covered by the restrictions, and the duration of the restrictions, and that such covenants are reasonably necessary to protect the Company's legitimate interests in its Confidential Information and in its relationships with its employees, customers and suppliers. Executive further acknowledges such covenants are essential elements of this Agreement and that, but for such covenants, the Company would not have entered into this Agreement.

(b) The Company and Executive have each consulted with their respective legal counsel and have been advised concerning the reasonableness and propriety of such covenants. Executive acknowledges that his observance of the covenants contained in Sections 8.1, 8.2, 8.3 and 8.4 will not deprive him of the ability to earn a livelihood or to support his dependents.

8.6 Right to Injunction; Survival of Undertakings.

(a) In recognition of the confidential nature of the Confidential Information, and in recognition of the necessity of the limited restrictions imposed by Sections 8.1, 8.2, 8.3 and 8.4 the parties agree that it would be impossible to measure solely in money the damages which the Company would suffer if Executive were to breach any of his obligations under such Sections. Executive acknowledges that any breach of any provision of such Sections would irreparably injure the Company. Accordingly, Executive agrees that if he breaches any of the provisions of such Sections, the Company shall be entitled, in addition to any other remedies to which the Company may be entitled under this Agreement or otherwise, to an injunction to be issued by a court of competent jurisdiction, to restrain any breach, or threatened breach, of such provisions, and Executive hereby waives any right to assert any claim or defense that the Company has an adequate remedy at law for any such breach.

(b) If a court determines that any of the covenants included in this Article VIII is unenforceable in whole or in part because of such covenant's duration or geographical or other scope, such court shall have the power to modify the duration or scope of such

provision, as the case may be, so as to cause such covenant as so modified to be enforceable.

(c) All of the provisions of this Article VIII shall survive any Termination of Employment without regard to (i) the reasons for such termination or (ii) the expiration of the Agreement Term.

(d) No Company shall have any further obligation to pay or provide severance or benefits under Article IV if a court determines that the Executive has breached any covenant in this Article VIII.

ARTICLE IX.

NON-EXCLUSIVITY OF RIGHTS

9.1 Waiver of Certain Other Rights. To the extent that lump sum cash severance payments are made to Executive pursuant to Article IV, Executive hereby waives the right to receive severance payments or severance benefits under any other Plan or agreement of the Company.

9.2 Other Rights. Except as expressly provided in Section 9.1 or elsewhere in this agreement, this Agreement shall not prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other Plans provided by the Company and for which Executive may qualify, nor shall this Agreement limit or otherwise affect such rights as Executive may have under any other agreements with the Company. Amounts which are vested benefits or which Executive is otherwise entitled to receive under any Plan and any other payment or benefit required by law at or after the Termination Date shall be payable in accordance with such Plan or applicable law except as expressly modified by this Agreement.

9.3 No Right to Continued Employment. Nothing in this Agreement shall guarantee the right of Executive to continue in employment, and the Companies retain the right to terminate the Executive's employment at any time for any reason or for no reason.

ARTICLE X.

MISCELLANEOUS

10.1 No Assignability. This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

10.2 Successors. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Any successor to the business or assets of the Company

which assumes or agrees to perform this Agreement by operation of law, contract, or otherwise shall be jointly and severally liable with the Company under this Agreement as if such successor were the Company.

10.3 Payments to Beneficiary. If Executive dies before receiving amounts to which Executive is entitled under this Agreement, such amounts shall be paid in a lump sum to one or more beneficiaries designated in writing by Executive (each, a "Beneficiary"). If none is so designated, the Executive's estate shall be his or her Beneficiary.

10.4 Non-Alienation of Benefits. Benefits payable under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, before actually being received by Executive, and any such attempt to dispose of any right to benefits payable under this Agreement shall be void.

10.5 Severability. If any one or more Articles, Sections or other portions of this Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Article, Section or other portion not so declared to be unlawful or invalid. Any Article, Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Article, Section or other portion to the fullest extent possible while remaining lawful and valid.

10.6 Amendments. This Agreement shall not be amended or modified except by written instrument executed by the Company and Executive.

10.7 Notices. All notices and other communications under this Agreement shall be in writing and delivered by hand, by nationally-recognized delivery service that promises overnight delivery, or by first-class registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive, to Executive at his most recent home address on file with the Company. If to any Company:

Principal Mutual Holding Company
711 High Street
Des Moines, Iowa 50392
Attention: Karen Shaff
Facsimile No.: (515) 235-9852

With copy to:
Pamela Baker, Esq.
Sonnenschein Nath & Rosenthal
8000 Sears Tower
Chicago, Illinois 60606
Facsimile No.: (312) 876-7934

or to such other address as either party shall have furnished to the other in writing. Notice and communications shall be effective when actually received by the addressee.

10.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together constitute one and the same instrument.

10.9 Governing Law. This Agreement shall be interpreted and construed in accordance with the laws of the State of Iowa, without regard to its choice of law principles.

10.10 The captions of this Agreement are not a part of the provisions hereof and shall have no force or effect.

10.11 Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine.

10.12 Tax Withholding. The Company may withhold from any amounts payable under this Agreement any Taxes that are required to be withheld pursuant to any applicable law or regulation and may report all such amounts payable to such authority as is required by any applicable law or regulation.

10.13 Waiver. Executive's failure to insist upon strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision of this Agreement. A waiver of any provision of this Agreement shall not be deemed a waiver of any other provision, and any waiver of any default in any such provision shall not be deemed a waiver of any later default thereof or of any other provision.

10.14 Joint and Several Liability. The obligations of the Companies to Executive under this Agreement shall be joint and several.

10.15 Entire Agreement. This Agreement contains the entire understanding of Mutual, Company and Executive with respect to its subject matter.

IN WITNESS WHEREOF, Executive, Principal Mutual Holding Company, Principal Financial Group, Principal Financial Services, Inc., and Principal Life Insurance Company have executed this Change of Control Employment Agreement as of the date first above written.

EXECUTIVE

PRINCIPAL MUTUAL HOLDING COMPANY

By: /s/ J. Barry Griswell

Title: President and Chief Executive Officer

PRINCIPAL FINANCIAL GROUP

By: /s/ J. Barry Griswell

Title: President and Chief Executive Officer

PRINCIPAL FINANCIAL SERVICES, INC.

By: /s/ J. Barry Griswell

Title: President and Chief Executive Officer

PRINCIPAL LIFE INSURANCE COMPANY

By: /s/ J. Barry Griswell

Title: President and Chief Executive Officer

Exhibit 10.10

FISCAL AGENCY AGREEMENT

among

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED
(ACN 087 430 331)
as Issuer

and

PRINCIPAL FINANCIAL SERVICES, INC.
as Guarantor

and

U.S. BANK TRUST NATIONAL ASSOCIATION
as Fiscal Agent

dated as of August 25, 1999

$200,000,000 7.95% Notes due August 15, 2004

and

$465,000,000 8.20% Notes due August 15, 2009

TABLE OF CONTENTS

		Page
	ARTICLE I	
	DEFINITIONS	
SECTION 1.1.	Definitions	1
SECTION 1.2.	Rules of Construction	10
SECTION 1.3.	Compliance Certificates and Opinions	11
	ARTICLE II	
	SECURITY AND GUARANTEE FORMS	
SECTION 2.1.	Forms of Securities Generally	11
SECTION 2.2.	Form of Face of 7.95% Notes	15
SECTION 2.3.	Form of Reverse of 7.95% Notes	19
SECTION 2.4.	Form of Fiscal Agent's Certificate of Authentication of 7.95% Notes	28
SECTION 2.5.	Form of Face of 8.20% Notes	28
SECTION 2.6.	Form of Reverse of 8.20% Notes	33
SECTION 2.7.	Form of Fiscal Agent's Certificate of Authentication of 8.20% Notes	42
SECTION 2.8.	Form of Guarantee	42
SECTION 2.9.	Registrar, Paying Agent, Depository and Custodian	48
SECTION 2.10.	Payment on Securities	49
SECTION 2.11.	Holder Lists	50
SECTION 2.12.	Outstanding Securities	51
SECTION 2.13.	Treasury Securities	51
	ARTICLE III	
	THE SECURITIES	
SECTION 3.1.	Title and Terms	52
(*) SECTION 3.2.	Denominations	54
SECTION 3.3.	Execution, Authentication, Delivery and Dating	54
SECTION 3.4.	Temporary Securities Other Than Regulation S Temporary Securities	56
SECTION 3.5.	Registration, Registration of Transfer and Exchange Generally; Restrictions on Transfer and Exchange	57

		Page
SECTION 3.6.	Mutilated, Destroyed, Lost and Stolen Securities	67
SECTION 3.7.	Payment of Interest; Interest Rights Preserved	68
SECTION 3.8.	Persons Deemed Owners	70
SECTION 3.9.	Cancellation	70
SECTION 3.10.	Computation of Interest	71
	ARTICLE IV	
	PAYMENT RESTRICTIONS	
SECTION 4.1.	Unpaid Amounts	71
	ARTICLE V	
	COVENANTS	
SECTION 5.1.	Payment of Principal and Interest	72
SECTION 5.2.	Rule 144A Information	72
SECTION 5.3.	Other Information	72
SECTION 5.4.	Corporate Existence	73
SECTION 5.5.	Compliance with Investment Company Act	73
SECTION 5.6.	Additional Amounts	73
SECTION 5.7.	Limitations upon Liens	76
SECTION 5.8.	Limitation on the Disposition of Stock of Restricted Subsidiaries	76
SECTION 5.9.	Annual Review Certificate; Notice of Defaults or Events of Default	77
	ARTICLE VI	
	REORGANIZATION, CONSOLIDATION, MERGER OR SALE BY THE COMPANY	
SECTION 6.1.	Consolidation, Merger or Sale of Assets Permitted	78
	ARTICLE VII	
	DEFAULTS AND REMEDIES	
SECTION 7.1.	Events of Default	80
SECTION 7.2.	Acceleration; Rescission and Annulment	82

		Page
SECTION 7.3.	Collection of Indebtedness and Suits for Enforcement by Fiscal Agent	84
SECTION 7.4.	Fiscal Agent May File Proofs of Claim	84
SECTION 7.5.	Fiscal Agent May Enforce Claims without Possession of Securities	85
SECTION 7.6.	Delay or Omission Not Waiver	85
SECTION 7.7.	Waiver of Past Defaults	86
SECTION 7.8.	Control by Majority	86
SECTION 7.9.	Limitation on Suits by Holders	86
SECTION 7.10.	Rights of Holders to Receive Payment	87
SECTION 7.11.	Application of Money Collected	88
SECTION 7.12.	Restoration of Rights and Remedies	88
SECTION 7.13.	Rights and Remedies Cumulative	89
SECTION 7.14.	Waiver of Usury, Stay or Extension Laws	89
SECTION 7.15.	Undertaking for Costs	89
SECTION 7.16.	Judgment Currency	90

ARTICLE VIII

REDEMPTION

SECTION 8.1.	Applicability of Article	90
SECTION 8.2.	Election to Redeem; Notice to Fiscal Agent	91
SECTION 8.3.	Selection by Fiscal Agent of Securities to Be Redeemed	91
SECTION 8.4.	Notice of Redemption	92
SECTION 8.5.	Deposit of Redemption Price	93
SECTION 8.6.	Securities Payable on Redemption Date	93
SECTION 8.7.	Securities Redeemed in Part	94
SECTION 8.8.	Optional Redemption	94
SECTION 8.9.	Optional Redemption Due to Changes in Tax Treatment	96

ARTICLE IX

FISCAL AGENT

SECTION 9.1.	Duties of Fiscal Agent	97
SECTION 9.2.	Rights of Fiscal Agent	98
SECTION 9.3.	Individual Rights of Fiscal Agent	99
SECTION 9.4.	Fiscal Agent's Disclaimer	99
SECTION 9.5.	Compensation and Indemnity	99
SECTION 9.6.	Replacement of Fiscal Agent	100

		Page
SECTION 9.7.	Successor Fiscal Agent, Agents by Merger, Etc.	100
SECTION 9.8.	Eligibility	101
SECTION 9.9.	Notice of Defaults	101

ARTICLE X

AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 10.1.	Without Consent of Holders	101
SECTION 10.2.	With Consent of Holders	102
SECTION 10.3.	Revocation and Effect of Consents	104
SECTION 10.4.	Notation on or Exchange of Securities	104
SECTION 10.5.	Fiscal Agent to Sign Amendments, Etc	104

ARTICLE XI

MEETINGS OF HOLDERS

SECTION 11.1.	Purposes for Which Meetings May Be Called	105
SECTION 11.2.	Call, Notice and Place of Meetings	105
SECTION 11.3.	Persons Entitled to Vote at Meetings	106
SECTION 11.4.	Quorum	106
SECTION 11.5.	Action by Written Consent	107
SECTION 11.6.	Determination of Voting Rights; Conduct and Adjournment of Meetings	107
SECTION 11.7.	Counting Votes and Recording Action of Meetings	108

ARTICLE XII

GUARANTEE

SECTION 12.1.	Guarantee	108
SECTION 12.2.	Execution and Delivery of Guarantee	114

ARTICLE XIII

ASSUMPTION BY GUARANTOR

SECTION 13.1.	Mandatory Assumption by Guarantor upon Failure to Consummate Acquisition	115
SECTION 13.2.	Optional Assumption by Guarantor	115

		Page
	ARTICLE XIV	
	DEFEASANCE AND COVENANT DEFEASANCE	
SECTION 14.1.	Option of Company and Guarantor to Effect Defeasance or Covenant Defeasance	116
SECTION 14.2.	Defeasance and Discharge	116
SECTION 14.3.	Covenant Defeasance	117
SECTION 14.4.	Conditions to Defeasance or Covenant Defeasance	117
SECTION 14.5.	Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions	121
SECTION 14.6.	Reinstatement	121
	ARTICLE XV	
	MISCELLANEOUS	
SECTION 15.1.	Notices	122
SECTION 15.2.	Governing Law	123
SECTION 15.3.	No Recourse against Others	123
SECTION 15.4.	Duplicate Originals	124
SECTION 15.5.	Headings and Table of Contents	124
SECTION 15.6.	Successor and Assigns	124
SECTION 15.7.	Separability	124
SECTION 15.8.	Legal Holidays	124

FISCAL AGENCY AGREEMENT dated as of August 25, 1999, between PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED (ACN 087 430 331), a company organized under the laws of the State of Victoria, Commonwealth of Australia (the "Company"), PRINCIPAL FINANCIAL SERVICES, INC., a company organized under the laws of the State of Iowa, as Guarantor (the "Guarantor"), and U.S. BANK TRUST NATIONAL ASSOCIATION, a banking organization organized under the laws of the United States, as Fiscal Agent (together with any successor as Fiscal Agent hereunder, the "Fiscal Agent").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Company's 7.95% Notes due August 15, 2004 (the "7.95% Notes") and 8.20% Notes due August 15, 2009 (the "8.20% Notes" and together with the 7.95% Notes, the "Securities") and any Additional Securities (as defined below) issued hereunder:

ARTICLE I

DEFINITIONS

SECTION 1.1. Definitions.

In this Agreement, unless the context otherwise requires:

"Acquisition" has the meaning set forth in the definition of "Acquisition Agreement";

"Acquisition Agreement" means the Share Sale Deed, dated June 17, 1999, among BT Investments (Australia) LLC, BT Foreign Investment Corporation, BT New Zealand Limited, BT International (Delaware), Inc. and Nominees (H.K.) Limited (collectively, the "Vendors"), Deutsche Bank AG (the "Warrantor"), Bankers Trust Corporation (the "Vendors' Guarantor"), Principal Financial Group (Australia) Pty Limited (the "Purchaser") and the Guarantor, pursuant to which the Purchaser agreed to purchase from the vendors and the Vendors agreed to sell to the Purchaser the Sale Shares in consideration for the Purchase Price (the "Acquisition");

"Additional Amounts" has the meaning set forth in Section 5.6;

"Additional Securities" means Securities of any series issued from time to time after the Issue Date under the terms of this Agreement (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Sections 3.4, 3.5, 3.6 or 8.7);

"Agent" means any Registrar, Paying Agent, Co-Registrar or Custodian;

"Agent Member" has the meaning set forth in Section 3.5;

"Agreement" means this Agreement, as amended or supplemented from time to time;

"Applicable Procedures" means, with respect to any transfer or transaction involving a Global Security or beneficial interest therein, the rules and procedures of the Depositary for such Security, Euroclear and Cedelbank, in each case to the extent applicable to such transaction and as in effect at the time of such transfer or transaction;

"Bankruptcy Code" has the meaning set forth in Section 12.1;

"Bankruptcy Law" has the meaning set forth in Section 7.1;

"Beneficial Holder" means each participant in the Depository that holds an interest in a Security, as indicated in the Participants List;

"Board of Directors" means, with respect to the Company or the Guarantor, either the board of directors of the Company or the Guarantor, as the case may be, or any duly authorized committee of that board. Except as otherwise provided or unless the context otherwise requires, each reference herein to the "Board of Directors" shall mean the Board of Directors of the Company;

"Board Resolution" of the Company or the Guarantor means a copy of a resolution certified by an Officer, the Secretary or an Assistant Secretary or by other authorized designees of the Board of Directors of the Company or the Guarantor, as the case may be, to have been duly adopted by its Board of Directors and to be in full force and effect on

the date of such certification, and delivered to the Fiscal Agent. Except as otherwise expressly provided or unless the context otherwise requires, each reference herein to a "Board Resolution" shall mean a Board Resolution of the Company;

"Business Day" means any day other than a Saturday, Sunday or any other day on which banking institutions are authorized or required by law or executive order to close in New York, New York or Des Moines, Iowa;

"Cedelbank" means Cedelbank, societe anonyme (or any successor securities clearing agency);

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a particular section of the Code shall include any successor Code section;

"Commissioner" means the Commissioner of the Insurance Division of the Department of Commerce of the State of Iowa, or such governmental officer, body or authority as may after the date hereof succeed to such Commissioner as the primary regulator of Principal Life's financial condition under applicable law;

"Company Order" means any request, instruction, order or directive signed by an Officer;

"Co-Registrar" has the meaning set forth in Section 2.9;

"Covenant Defeasance" has the meaning specified in Section 14.2;

"Custodian" has the meaning set forth in Section 2.9;

"Debt" means indebtedness for money borrowed;

"Default" means any event which is, or after notice or passage of time, or both, would be, an Event of Default;

"Defaulted Interest" has the meaning specified in Section 3.7;

"Defeasance" has the meaning specified in Section 14.3;

"Department" means the Insurance Division of the Department of Commerce of the State of Iowa;

"Depositary" means, with respect to any Securities, a clearing agency that is registered as such under the Exchange Act and is designated by the Company to act as Depositary for such Securities (or any successor securities clearing agency so registered);

"Depositary Securities Certification" has the meaning set forth in Section 2.1;

"Depository" means, with respect to the Securities issuable or issued in whole or in part in global form, the person specified in Section 2.9 as the Depository with respect to the Securities, until a successor shall have been appointed and becomes such pursuant to the applicable provisions of this Agreement, and, thereafter, "Depository" shall mean such successor;

"Dollars or $" means such coin or currency of the United States of America which is legal tender for payment of public and private debts;

"DTC" means The Depository Trust Company, a New York corporation;

"Euroclear" means the Euroclear Clearance System (or any successor securities clearing agency);

"Event of Default" has the meaning set forth in Section 7.1;

"Exchange Act" means the Securities Exchange Act of 1934, as amended;

"GAAP" shall mean generally accepted accounting principles of the relevant jurisdiction, as in effect from time to time;

"Global Security" means a Security that is registered in the Security Register in the name of a Depositary or a nominee thereof;

"Guarantee" means any Guarantee of the Guarantor endorsed on a Security authenticated and delivered pursuant

to this Fiscal Agency Agreement and shall include the Guarantee set forth in Section 2.8;

"Holder" means a Person in whose name a Security is registered in the Security Register;

"Initial Purchasers" means each of Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc., each as an initial purchaser under the Purchase Agreement;

"Institutional Accredited Investor" means an institutional investor that is an "accredited investor" within the meaning of Rule 501(a)(l), (2), (3) or (7) of Regulation D under the Securities Act;

"Insurance Law" means the insurance laws promulgated under the Code of Iowa;

"Interest Payment Date" shall mean (1) with respect to the 7.95% Notes, each February 15 and August 15, commencing February 15, 2000 and (2) with respect to the 8.20% Notes, each February 15 and August 15, commencing February 15, 2000;

"Issue Date" shall mean August 25, 1999.

"Lien" means any mortgage, deed of trust, pledge, lien, security interest or other encumbrance (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any filing or agreement to give a lien or to file a financing statement as a debtor under the Uniform Commercial Code or any similar statute other than to reflect ownership by a third party of property leased to the Guarantor or any Restricted Subsidiary under a lease which is not in the nature of a conditional sale or title retention agreement);

"Make-Whole Amount" has the meaning set forth in Section 8.8;

"Maturity", when used with respect to any Security, means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise;

"Officer" means the Chairman of the Board, the President, any Executive or Senior Vice President, or any Vice President of the Company or the Guarantor, as the case may be;

"Officers' Certificate" means a certificate signed by at least two Officers or by one Officer and any other person duly authorized by the Board of Directors of the Company or the Guarantor, as the case may be;

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Fiscal Agent. The counsel may be an employee of or counsel to the Company;

"Outstanding Securities" means the outstanding Securities determined in accordance with Section 2.12;

"Owner Securities Certification" has the meaning set forth in Section 2.1;

"Participants List" means the list furnished by the Depository showing persons that have a beneficial interest in the Securities evidenced by any Security in global form held by the Depository and the amount of such interest;

"Paying Agent" has the meaning set forth in section 2.9;

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof;

"Predecessor Security" of any particular Security means every Security issued before, and evidencing all or a portion of the same debt as that evidenced by, such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.6 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security;

"Principal" or "principal amount" means principal of the Securities and, where the context so requires, premium, if any, payable upon redemption of the Securities in accordance with paragraph two thereof;

"Principal Life" means Principal Life Insurance Company, an insurance company organized under the laws of the State of Iowa;

"Principal Mutual Holding Company" means Principal Mutual Holding Company, a mutual insurance holding company organized under the laws of the State of Iowa;

"Purchase Agreement" means the Purchase Agreement dated August 18, 1999, among the Company, the Guarantor and the Initial Purchasers;

"Purchase Price" has the meaning ascribed to such term in the Acquisition Agreement;

"QIB" means a "qualified institutional buyer" as defined in Rule 144A under the Securities Act;

"Receiver" has the meaning set forth in Section 7.1;

"Redemption Date" has the meaning set forth in Section 8.8;

"Redemption Price" has the meaning set forth in Section 8.8;

"Registrar" has the meaning set forth in Section 2.9;

"Register" means the register of each series of the Securities maintained pursuant to Section 2.9;

"Regular Record Date" for the interest payable on any Interest Payment Date means February 1 and August 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date;

"Regulation S" means Regulation S under the Securities Act (or any successor provision), as it may be amended from time to time;

"Regulation S Global Securities" has the meaning specified in Section 2.1;

"Reinvestment Rate" has the meaning set forth in Section 8.8;

"Responsible Officer" means any officer or assistant officer of the Fiscal Agent assigned by the Fiscal Agent to administer the transactions contemplated hereby;

"Restricted Global Securities" has the meaning specified in Section 2.1;

"Restricted Period" has the meaning set forth in Section 2.1;

"Restricted Securities" has the meaning set forth in Section 2.1;

"Restricted Subsidiary" means (i) the Company and (ii) a Subsidiary which is a regulated insurance company principally engaged in one or more of the life, annuity, property and casualty insurance businesses; provided that no such Subsidiary shall be a Restricted Subsidiary if (1) (a) the total assets of such Subsidiary are less than 10% of the total assets of the Guarantor and its consolidated Subsidiaries (including such Subsidiary), in each case as set forth on the most recent fiscal year-end balance sheets of such Subsidiary and the Guarantor and its consolidated Subsidiaries, respectively, and computed in accordance with GAAP, and (b) the total revenues of such Subsidiary are less than 10% of the total revenues of the Guarantor and its consolidated Subsidiaries (including such Subsidiary), in each case as set forth on the most recent fiscal year-end income statements of such Subsidiary and the Guarantor and its consolidated Subsidiaries, respectively, and computed in accordance with GAAP or (2) in the judgment of the Board of Directors, as evidenced by a Board Resolution, such Subsidiary is not material to the financial condition of the Guarantor and its consolidated Subsidiaries taken as a whole;

"Rule 144A" means Rule 144A under the Securities Act (or any successor provision), as it may be amended from time to time;

"Rule 144A Information" has the meaning set forth in Section 5.2;

"Sale Shares" has the meaning ascribed to such term in the Acquisition Agreement;

"Securities" means the 7.95% Notes and the 8.20% Notes, collectively;

"Securities Act" means the Securities Act of 1933, as amended;

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.5;

"series of Securities" means the 7.95% Notes, collectively, or the 8.20% Notes, collectively or any Additional Securities, collectively, as the context requires;

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Fiscal Agent pursuant to Section 3.7;

"Stated Maturity", when used with respect to any Security or any instalment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of interest, as the case may be, is due and payable;

"Stated Rate" means (i) with respect to the 7.95% Notes, a rate of interest equal to 7.95% per annum, and (ii) with respect to the 8.20% Notes, a rate of interest equal to 8.20% per annum;

"Statistical Release" has the meaning set forth in Section 8.8;

"Subsidiary" means, with respect to any Person, (i) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more Subsidiaries thereof, (ii) any other Person (other than a corporation) in which such Person, or one or more other Subsidiaries of such Person or such Person and one or more other Subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof, or (iii) any other Person which is otherwise controlled by such Person or by one or more other Subsidiaries of such Person or by such Person and one or more other Subsidiaries of such Person;

"Temporary Regulation S Global Securities" has the meaning set forth in Section 2.1;

"Total Assets" means, at any date, the total assets appearing on the most recently prepared consolidated balance sheet of the Guarantor and its consolidated Subsidiaries as of the end of a fiscal quarter of the Guarantor, prepared in accordance with GAAP;

"Transferee Securities Certification" has the meaning set forth in Section 3.5;

"Unpaid Amount" has the meaning set forth in Section 4.1;

"Unrestricted Securities" has the meaning set forth in Section 2.1; and

"Voting Stock" of any Person means capital stock of such Person which ordinarily has voting power for the election of directors (or persons performing similar functions) of such Person, whether at all times or only so long as no senior class of securities has such voting power by reason of any contingency.

SECTION 1.2. Rules of Construction. In this Agreement, unless the context otherwise requires:

(1) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement and the forms of Security included as Exhibits hereto as a whole, and not to any particular Article, Section or other subdivision;

(2) "or" is not exclusive;

(3) words in the singular include the plural, and words in the plural include the singular;

(4) provisions apply to successive events and transactions; and

(5) any reference to a party includes its successors from time to time.

SECTION 1.3. Compliance Certificates and Opinions.

Upon any application or request by the Company or the Guarantor to the Fiscal Agent to take or refrain from taking any action under any provision of this Fiscal Agency Agreement, the Company or the Guarantor shall furnish to the Fiscal Agent such certificates and opinions as may be as required by the Fiscal Agent. Each such certificate or opinion shall be given in the form of an Officer's Certificate, if to be given by an officer of the Company or the Guarantor, or an Opinion of Counsel, if to be given by counsel, and shall comply with any requirements set forth in this Fiscal Agency Agreement.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (except for certificates provided for in Section 5.6) shall include,

(a) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

ARTICLE II

SECURITY AND GUARANTEE FORMS

SECTION 2.1. Forms of Securities Generally.

The Securities shall be in substantially the forms set forth in this Article, and the Guarantee to be endorsed

thereon shall be in substantially the form set forth in Section 2.8 of this Agreement, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary thereof, the Code and regulations thereunder, or as may, consistently herewith, be determined by the officers executing such Securities or Guarantee endorsed thereon, as the case may be, as evidenced by their execution thereof. The Fiscal Agent's certificates of authentication shall be in substantially the form set forth in Section 2.4, with respect to the 7.95% Notes and Section 2.7 with respect to the 8.20% Notes. The Company shall approve the form of the Securities and any notation, legend or endorsement on the Securities.

The definitive Securities and the Guarantee endorsed thereon shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange on which the Securities or the Guarantee endorsed thereon, as the case may be, may be listed, all as determined by the officers executing such Securities or Guarantee as evidenced by their execution thereof.

In certain cases described elsewhere herein, the legends set forth in the first seven paragraphs of Section 2.2 or Section 2.5, as the case may be, may be omitted from Securities issued hereunder.

Securities offered and sold in their initial distribution in reliance on Regulation S shall be initially issued in the form of temporary Global Securities, one or more for each series, in fully registered form without interest coupons, substantially in the form of Security set forth in Sections 2.2 and 2.3 or Sections 2.5 and 2.6, as the case may be, with such applicable legends as are provided for in Section 2.2 and 2.5, as the case may be. Such Global Securities shall be registered in the name of the U.S. Depositary or its nominee and deposited with the Fiscal Agent, at its New York office, as custodian for the U.S. Depositary, duly executed by the Company and authenticated by the Fiscal Agent as hereinafter provided, for credit to the respective accounts at the U.S. Depositary

of the depositories for Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or Cedelbank. Until such time as the Restricted Period (as defined below) shall have terminated, such temporary Global Securities shall be referred to herein as "Temporary Regulation S Global Securities." Until such time as the Restricted Period shall have terminated, investors may hold beneficial interests in such Global Securities only through Euroclear and Cedelbank, unless delivery of such beneficial interest upon transfer shall be made through a Restricted Global Security in accordance with the certification requirements discussed below in Section 3.5(b)(v). After such time as the Restricted Period shall have terminated, such certification requirements shall no longer be required for such transfers. After such time as the Restricted Period shall have terminated and the certifications referred to below in the next succeeding paragraph shall have been provided, such temporary Global Securities shall be exchanged for interests in like Global Securities, referred to herein collectively as the "Regulation S Global Securities," substantially in the form of Security set forth in Section 2.2 and 2.3 or Sections 2.5 or 2.6, as the case may be, with such applicable legends as are provided for in Section 2.2 or Section 2.5. As used herein, the term "Restricted Period" means the period up to (but not including) the 40th day following the later of (i) the day that Goldman, Sachs & Co., as representative of the several initial purchasers of the Securities, advises the Company and the Fiscal Agent of the day on which the Securities are first offered to persons other than distributors (as defined in Regulation S) in reliance on Regulation S and (ii) August 25, 1999. The Temporary Regulation S Global Securities, Regulation S Global Securities following the Restricted Period and all other Securities that are not Restricted Securities shall collectively be referred to herein as the "Unrestricted Securities."

Interests in a Temporary Regulation S Global Security may be exchanged for interests in a Regulation S Global Security of the same series only on or after the termination of the Restricted Period after delivery by a beneficial owner of an interest therein to Euroclear or Cedelbank of a written certification (an "Owner Securities Certification") substantially in the form of Annex C-l hereto, and upon delivery by Euroclear or Cedelbank to the Fiscal Agent of a written certification (a "Depositary Securities Certification") substantially in the form

attached hereto as Annex C-2. Upon receipt of such certification, the Fiscal Agent will exchange the portion of the Temporary Regulation S Global Security covered by such certification for interests in a Regulation S Global Security of the same series.

Securities offered and sold in their initial distribution in reliance on Rule 144A shall be issued in the form of Global Securities, one or more for each series (collectively, as to each series, the "Restricted Global Securities"), in fully registered form without interest coupons, substantially in the form of Security set forth in Sections 2.2 and 2.3 or Sections 2.5 and 2.6, as the case may be, with such applicable legends as are provided for in Section 2.2 or Section 2.5, as the case may be, except as otherwise permitted herein. Such Global Securities shall be registered in the name of the U.S. Depositary or its nominee and deposited with the Fiscal Agent, at its New York office, as custodian for the U.S. Depositary, duly executed by the Company and authenticated by the Fiscal Agent as hereinafter provided. The aggregate principal amount of a Restricted Global Security may be increased or decreased from time to time by adjustments made on the records of the Fiscal Agent, as custodian for the U.S. Depositary, in connection with a corresponding decrease or increase in the aggregate principal amount of the Temporary Regulation S Global Security or Regulation S Global Security each of the same series, as the case may be, as hereinafter provided. The Restricted Global Securities and all other Securities evidencing the debt, or any portion of the debt, initially evidenced by such Global Securities, other than Securities transferred or exchanged upon certification as provided in Section 3.5(b)(ii), (iii), (iv) or (vii), shall collectively be referred to herein as the "Restricted Securities."

The Securities will be issued only in registered form. The Securities will be issued in minimum denominations of $1,000, except that Securities offered other than in reliance on Regulation S or to Qualified Institutional Buyers will be issued only in definitive certificated form and will be issued initially in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof. Such Securities (i.e., Securities sold to Institutional Accredited Investors) will also be considered to be Restricted Securities hereunder.

SECTION 2.2. Form of Face of 7.95% Notes

[INCLUDE IF SECURITY IS A TEMPORARY REGULATION S GLOBAL SECURITY -- THIS SECURITY IS A TEMPORARY REGULATION S GLOBAL SECURITY WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT REFERRED TO HEREINAFTER. EXCEPT IN THE CIRCUMSTANCES DESCRIBED IN THE FISCAL AGENCY AGREEMENT, NO TRANSFER OR EXCHANGE OF AN INTEREST IN THIS TEMPORARY GLOBAL SECURITY MAY BE MADE FOR AN INTEREST IN THE RESTRICTED GLOBAL SECURITY. NO EXCHANGE OF AN INTEREST IN THIS TEMPORARY GLOBAL SECURITY MAY BE MADE FOR AN INTEREST IN THE REGULATION S GLOBAL SECURITY EXCEPT ON OR AFTER THE TERMINATION OF THE RESTRICTED PERIOD AND UPON DELIVERY OF THE OWNER SECURITIES CERTIFICATION AND THE DEPOSITARY SECURITIES CERTIFICATION RELATING TO SUCH INTEREST IN ACCORDANCE WITH THE TERMS OF THE FISCAL AGENCY AGREEMENT.]

[INCLUDE IF SECURITY IS A RESTRICTED SECURITY -- THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR (I) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK-ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE FISCAL AGENCY AGREEMENT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF SECURITIES.]

[INCLUDE IF SECURITY IS A GLOBAL SECURITY -- THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF.

THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE FISCAL AGENCY AGREEMENT.]

[INCLUDE ON ALL SECURITIES -- NO ASSOCIATE (AS DEFINED IN DIVISION 16F OF THE INCOME TAX ASSESSMENT ACT OF 1936 OF THE COMMONWEALTH OF AUSTRALIA (THE "TAX ACT") (BUT ON THE BASIS THAT SUB-PARAGRAPHS 159GZC(l)(a)(ii), (l)(b)(i) and (l)(d)(i) OF THE TAX ACT DO NOT APPLY) OF THE ISSUER (AS DEFINED HEREIN) MAY (DIRECTLY OR INDIRECTLY) ACQUIRE THIS SECURITY OR ANY INTEREST IN OR RIGHT IN RESPECT OF THIS SECURITY (OTHER THAN SUCH A PERSON WHO ACQUIRES THIS SECURITY OR SUCH INTEREST OR RIGHT IN THE CAPACITY OF A DEALER IN RELATION TO THE PLACEMENT OF THE SECURITY, INTEREST OR RIGHT).

EACH PERSON WHO SO ACQUIRES THIS SECURITY OR SUCH INTEREST OR RIGHT IS TAKEN TO HAVE WARRANTED IN FAVOR OF THE ISSUER THAT THE PERSON IS NOT AN ASSOCIATE.

ANY ASSOCIATE WHO SO ACQUIRES THIS SECURITY MAY BE SUBJECT TO AUSTRALIAN INTEREST WITHHOLDING TAX AND, IF SO, WILL NOT BE ENTITLED TO RECEIVE ANY PAYMENT OF ADDITIONAL AMOUNTS FROM THE ISSUER OR THE GUARANTOR (AS DEFINED HEREIN) IN RESPECT OF ANY AMOUNT DEDUCTED BY THE ISSUER OR THE GUARANTOR ON ACCOUNT OF SUCH TAX FROM AMOUNTS PAYABLE UNDER OR IN RESPECT OF THIS SECURITY.]

[INCLUDE IF SECURITY IS A GLOBAL SECURITY AND THE DEPOSITORY TRUST COMPANY IS THE U.S. DEPOSITARY -- UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF CEDE & CO. (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED
(ACN 087 430 331)

7.95% NOTES DUE August 15, 2004

GUARANTEED AS TO PAYMENT OF PRINCIPAL, PREMIUM (IF ANY)
AND INTEREST BY
PRINCIPAL FINANCIAL SERVICES, INC.

No. _____ U.S.$

CUSIP No.: [If Restricted Global Securities--74251UAA2]
[If Regulation S Global Securities--Q77548AA5]
[If Restricted Securities--74251UABO]
ISIN: [If Restricted Global Securities--US74251UAA25]
[If Regulation S Global Securities--USQ77548AA55]
[If Restricted Securities--US74251UABO8]
Common Code: [If Restricted Global Securities--010112753]
[If Regulation S Global Securities--010112478]

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED, a corporation duly organized and existing under the laws of the Commonwealth of Australia, State of Victoria (herein called the "Company," which term includes any successor Person under the Fiscal Agency Agreement referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____, U.S. Dollars, [or such other amount (not to exceed Two Hundred Million U.S. Dollars (U.S. $200,000,000) when taken together with all of the Company's 7.95% Notes due August 15, 2004 issued and outstanding in definitive certificated form or in the form of another Global Security) as may from time to time represent the principal amount of the Company's 7.95% Notes due August 15, 2004 in respect of which beneficial interests are held through the U.S. Depositary in the form of a [Restricted] [Temporary Regulation S Global Security or a Regulation S] Global Security,] -- [omit from Non-Global Securities] on August 15, 2004, and to pay interest thereon from August 25, 1999 or from the most recent Interest Payment Date (as defined below) to which interest has been paid or duly provided for, semi-annually in arrears on February 15 and August 15 in each year, commencing on February 15, 2000, and at Maturity at the rate of 7.95% per annum, until the

principal hereof is paid or made available for payment, provided that any amount of such principal (and premium, if any) or interest that is overdue shall bear interest at the rate of 7.95% per annum (to the extent that payment of such interest shall be legally enforceable), from the date such amount is due until it is paid or made available for payment, and such interest on any overdue amount shall be payable on demand. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Fiscal Agency Agreement, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the February 1 or August 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Fiscal Agent, notice thereof shall be given to Holders of Securities not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Fiscal Agency Agreement.

Payment of the principal of this Security and the interest due at Stated Maturity will be made in immediately available funds upon surrender of this Security at the office or agency of the Paying Agent, maintained for that purpose in New York, New York, or at such other paying agency as the Company may determine. Payments of interest, other than interest due at Stated Maturity, will be made by U.S. dollar check mailed to the address of the Person entitled thereto as such address shall appear in the Security register. A Holder of U.S. $5,000,000 or more in aggregate principal amount of Securities having the same Interest Payment Date will be entitled to receive payments of interest, other than interest due at Stated Maturity, by wire transfer of immediately available funds if appropriate wire transfer instructions have been received by the Paying Agent in writing not less than 15 calendar days prior to the applicable Interest Payment Date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Fiscal Agent referred to on the reverse hereof by the manual signature of one of its authorized signatories, this Security shall not be entitled to any benefit under the Fiscal Agency Agreement or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this Security to be duly executed under its corporate seal.

Date:

PRINCIPAL FINANCIAL GROUP
(AUSTRALIA) HOLDINGS PTY LIMITED

By_____

Attest:

_____

SECTION 2.3. Form of Reverse of 7.95% Notes.

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one series under a Fiscal Agency Agreement, dated as of August 25, 1999, among the Company, Principal Financial Services, Inc. (the "Guarantor") and U.S. Bank Trust National Association, as Fiscal Agent (herein called the "Fiscal Agent", which term includes any successor fiscal agent under the Fiscal Agency Agreement),

and reference is hereby made to the Fiscal Agency Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Guarantor, the Fiscal Agency Agreement and the Holders of the Securities and of the terms upon which the Securities and the Guarantee endorsed thereon are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof limited in aggregate principal amount to U.S. $200,000,000 or its equivalent in another currency or composite currency. The Company has appointed U.S. Bank Trust National Association at its corporate trust office in New York, New York as the paying agent (the "Paying Agent", which term includes any additional or successor Paying Agent appointed by the Company) with respect to the Securities.

This Security shall be redeemable, in whole or in part at any time, at the option of the Company on any date (a "Redemption Date"), at a Redemption Price equal to the sum of (1) 100% of the principal amount of this Security plus accrued interest thereon to the Redemption Date and (2) the Make-Whole Amount, if any, with respect to this Security (the "Redemption Price"). From and after the date notice has been given as provided in Section 8.4 of the Fiscal Agency Agreement, if funds for the redemption of this Security shall have been made available on such Redemption Date, this Security will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holder of this Security will be to receive payment of the Redemption Price.

"Make-Whole Amount" means, in connection with any optional redemption or accelerated payment of this Security, the excess, if any of (1) the aggregate present value as of the date of such redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of such dollar if such redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or accelerated payment

had not been made, over (2) the aggregate principal amount of the 7.95% Notes being redeemed or paid.

"Reinvestment Rate" means 20 basis points plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity, as of the payment date, of the principal being redeemed or paid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities, or, if such statistical release is not published at the time of any determination under the Fiscal Agency Agreement, then such other reasonably comparable index which shall be designated by the Company.

If as the result of any change in or any amendment to the laws, regulations or published tax rulings of Australia, or of any political subdivision or taxing authority thereof or therein, affecting taxation, or any change in the official administration, application or interpretation by any Australian court or tribunal, government or government authority of such laws, regulations or published tax rulings either generally or in relation to this particular Security (or the Guarantee thereof), which change or amendment becomes effective on or after the original issue date of this Security and Guarantee or which change in official administration, application or interpretation shall not have been available to the public prior to such issue date, the Company or the Guarantor would be required to pay any Additional Amounts pursuant to Section 5.6 of the Fiscal Agency Agreement in respect of

interest on the next succeeding Interest Payment Date (assuming, in the case of the Guarantor, a payment in respect of such interest was required to be made by the Guarantor under the Guarantee thereof on such Interest Payment Date), on which the Guarantor would be unable, for reasons outside its control, to procure payment by the Company, and the obligation to pay Additional Amounts cannot be avoided by the use of reasonable measures available to the Company or the Guarantor, the Company or the Guarantor may, at either of their options, redeem all (but not less than all) the Securities of this series in respect of which such Additional Amounts would be so payable at any time, upon notice as provided in Sections 8.2 and 8.4 of the Fiscal Agency Agreement, at a Redemption Price equal to 100 percent of the principal amount thereof plus all accrued and unpaid interest to the date fixed for redemption; provided, however, that (a) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company or the Guarantor, as the case may be, would be obligated to pay such Additional Amounts were a payment in respect of this Security or the Guarantee thereof then due, and (b) at the time any such redemption notice is given, such obligation to pay such Additional Amounts must remain in effect. Prior to any redemption of this Security pursuant to Section 8.9 of the Fiscal Agency Agreement, the Company shall provide the Fiscal Agent with an Opinion of Counsel that the conditions precedent to the right of the Company to redeem this Security pursuant to such Section have occurred and a certificate signed by an Authorized Officer stating that the obligation to pay Additional Amounts with respect of this Security, cannot be avoided by taking measures that the Company or the Guarantor, as the case may be, believes are reasonable. Such Opinion of Counsel shall be based on the laws and application and interpretation thereof in effect on the date of such opinion or to become effective on or before the next succeeding Interest Payment Date.

If an Event of Default with respect to Securities shall occur and be continuing, the principal (and premium, if any) of the Securities may be declared due and payable in the manner and with the effect provided in the Fiscal Agency Agreement. Upon payment (i) of the amount of principal (and premium, if any) so declared due and payable and (ii) of interest on any overdue principal and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in

respect of the payment of the principal (and premium, if any) and interest, if any, on the Securities shall terminate.

The Company hereby agrees that all payments of, or in respect of, principal of (and premium, if any) and any interest on, the Securities, shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by Australia or any political subdivision or taxing authority thereof or therein to be withheld or deducted. In that event, the Company will pay such additional amounts of, or in respect of, principal of (and premium, if any) and any interest on, the Securities ("Additional Amounts") as will result (after deduction of such taxes, duties, assessments 'or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such) in the payment to the Holder of this Security of the amounts which would have been payable in respect of this Security had no such withholding or deduction been required, except that no Additional Amounts shall be so payable for or on account of (1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the fact that such Holder (A) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, Australia or otherwise had some connection with Australia other than the mere ownership of, or receipt of payment under this Security or this Guarantee; (B) presented this Security or this Guarantee for payment in Australia, unless this Security or this Guarantee could not have been presented for payment elsewhere; or (C) presented this Security or this Guarantee, as the case may be, more than thirty (30) days after the date on which the payment in respect of this Security first became due and payable or provided for, whichever is later, except to the extent that the Holder would have been entitled to such Additional Amounts if it had presented this Security or this Guarantee for payment on any day within such period of thirty (30) days (2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge or any withholding or deduction on account of such taxes, (3) any tax, assessment or other

governmental charge which is payable otherwise than by withholding or deduction from payments of (or in respect of) principal of (or premium, if any), or any interest pursuant to this Security or this Guarantee, (4) any withholding, deduction, tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the Holder or the beneficial owner of this Security with a request of the Company or the Company addressed to such Holder or beneficial owner, as the case may be, (A) to provide information concerning the nationality, residence or identity of such Holder or such beneficial owner or (B) to make any declaration or other similar claim or satisfy any information or reporting requirement, which, in the case of (A) or (B), is required or imposed by a statute, treaty, regulation or administrative practice of Australia or any political subdivision or taxing authority thereof or therein as a precondition to exemption from all or part of such withholding, deduction, tax, assessment or other governmental charge, (5) any withholding, deduction, tax, assessment or other governmental charge which is imposed or withheld by reason of such Holder being an associate of the Company or the Company for the purposes of Section 128(F) of the Income Tax Assessment Act 1936 of Australia, (6) a determination by the Commissioner of Taxation that Australian interest withholding tax is payable in respect of the amount in the circumstances where the Holder or such entity, or a person on behalf of the Holder or such entity, is party to or participated in a scheme to avoid Australian interest withholding tax, being a scheme which the Company neither was party to nor participated in, or (7) any combination of items (l), (2), (3), (4), (5) and (6), nor shall Additional Amounts be paid with respect to any payment of, or in respect of, the principal of (and premium, if any), or any interest on, this Security to any such Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Australia or any political subdivision or taxing authority thereof or therein to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, any of whom would not have been entitled to such Additional Amounts had it been the Holder of this Security.

The Securities are entitled to the benefits of the covenants of the Company or the Guarantor, as the case may be, set forth in the Fiscal Agency Agreement.

As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the obligations of the Company under the Fiscal Agency Agreement and this Security are Guaranteed pursuant to the Guarantee endorsed hereon.

The Fiscal Agency Agreement contains provision for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Fiscal Agency Agreement.

The Fiscal Agency Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the Guarantor and the rights of the Holders of the Securities under the Fiscal Agency Agreement at any time by the Company, the Guarantor and the Fiscal Agent with either (a) the consent of the Holders of a majority in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding or (b) by the adoption of a resolution, at a meeting of Holders of Outstanding Securities at which a quorum is present, by the Holders of a majority in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding represented at such meeting. The Fiscal Agency Agreement also contains provisions permitting the Holders of specified percentages in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding, on behalf of the Holders of all Securities under the Fiscal Agency Agreement at the time Outstanding, to waive compliance by the Company and the Guarantor with certain provisions of the Fiscal Agency Agreement and certain past defaults under the Fiscal Agency Agreement and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Fiscal Agency Agreement, the Holder of this Security shall not have the right to institute any proceeding with respect to the Fiscal Agency Agreement or for the appointment of a receiver or trustee or for any other remedy

thereunder, unless such Holder shall have previously given the Fiscal Agency written notice of a continuing Event of Default with respect to the Securities under the Fiscal Agency Agreement, the Holders of not less than 25% in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding shall have made written request to the Fiscal Agent to institute proceedings in respect of such Event of Default as Fiscal Agent and offered the reasonable indemnity, and the Fiscal Agent shall not have received from the Holders of a majority in principal amount of Securities under the Fiscal Agency Agreement at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof (and premium, if any) or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Fiscal Agency Agreement and no provision of this Security or of the Fiscal Agency Agreement shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of like tenor, of authorized denominations and for the same aggregate principal amount and with the Guarantee endorsed thereon, will be issued to the designated transferee or transferees. As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the Securities are exchangeable for a like aggregate principal amount of Securities and of like tenor of a different authorized

denomination, as requested by the Holder surrendering the same.

This Security, and any Security or Securities issued upon transfer or exchange hereof, is issuable only in fully registered form, ,without coupons, and, except as provided in the Fiscal Agency Agreement, in denominations of $1,000 and any 'integral multiples of $1,000 in excess thereof.

[IF THIS SECURITY IS A TEMPORARY REGULATION S SECURITY -- This Temporary Regulation S Security is exchangeable in whole for a Regulation S Global Security only (i) after the termination of the Restricted Period (as defined in the Fiscal Agency Agreement) and (ii) upon presentation of certification of non-United States beneficial ownership of 100% of the aggregate principal amount of this Temporary Regulation S Security, as required in the Fiscal Agency Agreement. Upon exchange of this Temporary Regulation S Global Security for a Regulation S Global Security, the Fiscal Agent shall cancel this Temporary Regulation S Global Security and it shall become void.]

[IF THIS SECURITY IS A GLOBAL SECURITY -- This Security is a Global Security and shall be exchangeable for Securities registered in the names of Persons other than the Depositary with respect to this Global Security or its nominee only if (i) such Depositary notifies the Company that it is unwilling or unable to continue as Depositary for this Global Security or at any time ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended or (ii) there shall have occurred and be continuing an Event of Default with respect to the Securities.]

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Guarantor, the Fiscal Agent and any agent of the Company, the Guarantor, or the Fiscal Agent may treat the Person in whose name this 'Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the

Company, the Guarantor, the Fiscal Agent nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Fiscal Agency Agreement shall have the meanings assigned to them in the Fiscal Agency Agreement.

THE FISCAL AGENCY AGREEMENT AND THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, THE UNITED STATES OF AMERICA, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

SECTION 2.4. Form of Fiscal Agent's Certificate of Authentication of 7.95% Notes.

The Fiscal Agent's certificates of authentication shall be in substantially the following form:

This is one of the Securities referred to in the within-mentioned Fiscal Agency Agreement.

Dated:

U.S. Bank Trust National Association,
as Fiscal Agent

By:

Authorized Signatory

SECTION 2.5. Form of Face of 8.20% Notes.

[INCLUDE IF SECURITY IS A TEMPORARY REGULATION S GLOBAL SECURITY -- THIS SECURITY IS A TEMPORARY REGULATION S GLOBAL SECURITY WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT REFERRED TO HEREINAFTER. EXCEPT IN THE CIRCUMSTANCES DESCRIBED IN THE FISCAL AGENCY AGREEMENT, NO TRANSFER OR EXCHANGE OF AN INTEREST IN THIS TEMPORARY GLOBAL SECURITY MAY BE MADE FOR AN INTEREST IN THE RESTRICTED GLOBAL SECURITY. NO EXCHANGE OF AN INTEREST IN THIS TEMPORARY GLOBAL SECURITY MAY BE MADE FOR AN INTEREST IN THE REGULATION S GLOBAL SECURITY EXCEPT ON OR AFTER THE TERMINATION OF THE RESTRICTED PERIOD AND UPON DELIVERY OF THE OWNER SECURITIES CERTIFICATION AND THE DEPOSITARY

SECURITIES CERTIFICATION RELATING TO SUCH INTEREST IN ACCORDANCE WITH THE TERMS OF THE FISCAL AGENCY AGREEMENT.]

[INCLUDE IF SECURITY IS A RESTRICTED SECURITY -- THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR (I) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. SECURITIES OWNED BY AN INITIAL INVESTOR THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER MAY NOT BE HELD IN BOOK- ENTRY FORM AND MAY NOT BE TRANSFERRED WITHOUT CERTIFICATION THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS, AS PROVIDED IN THE FISCAL AGENCY AGREEMENT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF SECURITIES.]

[INCLUDE IF SECURITY IS A GLOBAL SECURITY -- THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE FISCAL AGENCY AGREEMENT HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE FISCAL AGENCY AGREEMENT.]

[INCLUDE ON ALL SECURITIES -- NO ASSOCIATE (AS DEFINED IN DIVISION 16F OF THE INCOME TAX ASSESSMENT ACT OF 1936 OF THE COMMONWEALTH OF AUSTRALIA (THE "TAX ACT") (BUT ON THE BASIS THAT SUB-PARAGRAPHS 159GZC(l)(a)(ii), (l)(b)(i) and (l)(d)(i) OF THE TAX ACT DO NOT APPLY) OF THE ISSUER (AS DEFINED HEREIN) MAY (DIRECTLY OR INDIRECTLY) ACQUIRE THIS SECURITY OR ANY INTEREST IN OR RIGHT IN RESPECT OF THIS

SECURITY (OTHER THAN SUCH A PERSON WHO ACQUIRES THIS SECURITY OR SUCH INTEREST OR RIGHT IN THE CAPACITY OF A DEALER IN RELATION TO THE PLACEMENT OF THE SECURITY, INTEREST OR RIGHT).

EACH PERSON WHO SO ACQUIRES THIS SECURITY OR SUCH INTEREST OR RIGHT IS TAKEN TO HAVE WARRANTED IN FAVOR OF THE ISSUER THAT THE PERSON IS NOT AN ASSOCIATE.

ANY ASSOCIATE WHO SO ACQUIRES THIS SECURITY MAY BE SUBJECT TO AUSTRALIAN INTEREST WITHHOLDING TAX AND, IF SO, WILL NOT BE ENTITLED TO RECEIVE ANY PAYMENT OF ADDITIONAL AMOUNTS FROM THE ISSUER OR THE GUARANTOR (AS DEFINED HEREIN) IN RESPECT OF ANY AMOUNT DEDUCTED BY THE ISSUER OR THE GUARANTOR ON ACCOUNT OF SUCH TAX FROM AMOUNTS PAYABLE UNDER OR IN RESPECT OF THIS SECURITY.]

[INCLUDE IF SECURITY IS A GLOBAL SECURITY AND THE DEPOSITORY TRUST COMPANY IS THE U.S. DEPOSITARY -- UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY ("DTC"), A NEW YORK CORPORATION, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF CEDE & CO. (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED
(ACN 087 430 331)

8.20% NOTES DUE AUGUST 15, 2009

GUARANTEED AS TO PAYMENT OF PRINCIPAL,
PREMIUM (IF ANY) AND INTEREST BY
PRINCIPAL FINANCIAL SERVICES, INC.

No. _____ U.S.$

CUSIP No.: [If Restricted Global Securities-74251UAC8]
[If Regulation S Global Securities-Q77548AB3]
[If Restricted Securities-74251UAD6]
ISIN: [If Restricted Global Securities-US74251UAC80]
[If Regulation S Global Securities-USQ77548AB39]
[If Restricted Securities-US74251UAD63]
Common Code: [If Restricted Global Securities-010112800]
[If Regulation S Restricted Securities-010112796]

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED, a corporation duly organized and existing under the laws of the Commonwealth of Australia, State of Victoria (herein called the "Company," which term includes any successor Person under the Fiscal Agency Agreement referred to on the reverse hereof), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ U.S. Dollars, [or such other amount (not to exceed Four Hundred Sixty Five Million U.S. Dollars (U.S. $465,000,000) when taken together with all of the Company's 8.20% Notes due August 15, 2009 issued and outstanding in definitive certificated form or in the form of another Global Security) as may from time to time represent the principal amount of the Company's 8.20% Notes due August 15, 2009 in respect of which beneficial interests are held through the U.S. Depositary in the form of a [Restricted] [Temporary Regulation S Global Security or a Regulation S] Global Security,] -- [omit from Non-Global Securities] on August 15, 2009, and to pay interest thereon from August 25, 1999 or from the most recent Interest Payment Date (as defined below) to which interest has been paid or duly provided for, semi-annually in arrears on

February 15 and August 15 in each year, commencing on February 15, 2000, and at Maturity at the rate of 8.20% per annum, until the principal hereof is paid or made available for payment, provided that any amount of such principal (and premium, if any) or interest that is overdue shall bear interest at the rate of 8.20% a per annum (to the extent that payment of such interest shall be legally enforceable), from the date such amount is due until it is paid or made available for payment, and such interest on any overdue amount shall be payable on demand. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Fiscal Agency Agreement, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the February 1 or August 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Fiscal Agent, notice thereof shall be given to Holders of Securities not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Fiscal Agency Agreement.

Payment of the principal of this Security and the interest due at Stated Maturity will be made in immediately available funds upon surrender of this Security at the office or agency of the Paying Agent, maintained for that purpose in New York, New York, or at such other paying agency as the Company may determine. Payments of interest, other than interest due at Stated Maturity, will be made by U.S. dollar check mailed to the address of the Person entitled thereto as such address shall appear in the Security register. A Holder of U.S. $5,000,000 or more in aggregate principal amount of Securities having the same Interest Payment Date will be entitled to receive payments of interest, other than interest due at Stated Maturity, by wire transfer of immediately available funds if appropriate wire transfer instructions have been received by the Paying Agent

in writing not less than 15 calendar days prior to the applicable Interest Payment Date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Fiscal Agent referred to on the reverse hereof by the manual signature of one of its authorized signatories, this Security shall not be entitled to any benefit under the Fiscal Agency Agreement or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this Security to be duly executed under its corporate seal.

Date:

PRINCIPAL FINANCIAL GROUP
(AUSTRALIA) HOLDINGS PTY LIMITED

BY _____

Attest:

_____

SECTION 2.6. Form of Reverse of 8.20% Notes.

PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LIMITED

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one series under a Fiscal Agency Agreement, dated as of August 25, 1999, among the Company, Principal Financial Services, Inc. (the "Guarantor") and U.S. Bank Trust National Association, as Fiscal Agent (herein called the "Fiscal Agent", which term includes any

successor fiscal agent under the Fiscal Agency Agreement), and reference is hereby made to the Fiscal Agency Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Guarantor, the Fiscal Agency Agreement and the Holders of the Securities and of the terms upon which the Securities and the Guarantee endorsed thereon are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof limited in aggregate principal amount to U.S. $465,000,000 or its equivalent in another currency or composite currency. The Company has appointed U.S. Bank Trust National Association at its corporate trust office in New York, New York as the paying agent (the "Paying Agent," which term includes any additional or successor Paying Agent appointed by the Company) with respect to the Securities.

This Security shall be redeemable, in whole or in part at any time, at the option of the Company on any date (a "Redemption Date"), at a Redemption Price equal to the sum of (1) 100% of the principal amount of this Security plus accrued interest thereon to the Redemption Date and (2) the Make-Whole Amount, if any, with respect to this Security (the "Redemption Price"). From and after the date notice has been given as provided in Section 8.4 of the Fiscal Agency Agreement, if funds for the redemption of this Security shall have been made available on such Redemption Date, this Security will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holder of this Security will be to receive payment of the Redemption Price.

"Make-Whole Amount" means, in connection with any optional redemption or accelerated payment of this Security, the excess, if any of (1) the aggregate present value as of the date of such redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of such dollar if such redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or accelerated payment

had not been made, over (2) the aggregate principal amount of the 8.20% Notes being redeemed or paid.

"Reinvestment Rate" means 25 basis points plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity, as of the payment date, of the principal being redeemed or paid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities, or, if such statistical release is not published at the time of any determination under the Fiscal Agency Agreement, then such other reasonably comparable index which shall be designated by the Company.

If as the result of any change in or any amendment to the laws, regulations or published tax rulings of Australia, or of any political subdivision or taxing authority thereof or therein, affecting taxation, or any change in the official administration, application or interpretation by any Australian court or tribunal, government or government authority of such laws, regulations or published tax rulings either generally or in relation to this particular Security (or the Guarantee thereof), which this particular Security (or the Guarantee thereof), which change or amendment becomes effective on or after the original issue date of this Security and Guarantee or which change in official administration, application or interpretation shall not have been available to the public prior to such issue date, the Company or the Guarantor would be required to pay any Additional Amounts pursuant to

Section 5.6 of the Fiscal Agency Agreement in respect of interest on the next succeeding Interest Payment Date (assuming, in the case of the Guarantor, a payment in respect of such interest was required to be made by the Guarantor under the Guarantee thereof on such Interest Payment Date), on which the Guarantor would be unable, for reasons outside its control, to procure payment by the Company, and the obligation to pay Additional Amounts cannot be avoided by the use of reasonable measures available to the Company or the Guarantor, the Company or the Guarantor may, at either of their options, redeem all (but not less than all) the Securities of this series in respect of which such Additional Amounts would be so payable at any time, upon notice as provided in Sections 8.2 and 8.4 of the Fiscal Agency Agreement, at a Redemption Price equal to 100 percent of the principal amount thereof plus all accrued and unpaid interest to the date fixed for redemption; provided, however, that (a) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company or the Guarantor, as the case may be, would be obligated to pay such Additional Amounts were in payment in respect of this Security or the Guarantee thereof then due, and (b) at the time any such redemption notice is given, such obligation to pay such Additional Amounts must remain in effect. Prior to any redemption of this Security pursuant to Section 8.9 of the Fiscal Agency Agreement, the Company shall provide the Fiscal Agent with an Opinion of Counsel that the conditions precedent to the right of the Company to redeem this Security pursuant to such Section have occurred and a certificate signed by an Authorized Officer stating that the obligation to pay Additional Amounts with respect of this Security, cannot be avoided by taking measures that the Company or the Guarantor, as the case may be, believes are reasonable. Such Opinion of Counsel shall be based on the laws and application and interpretation thereof in effect on the date of such opinion or to become effective on or before the next succeeding Interest Payment Date.

If an Event of Default with respect to Securities shall occur and be continuing, the principal (and premium, if any) of the Securities may be declared due and payable in the manner and with the effect provided in the Fiscal Agency Agreement. Upon payment (i) of the amount of principal (and premium, if any) so declared due and payable and (ii) of interest on any overdue principal and interest (in each case to the extent that the payment of such interest shall be

legally enforceable), all of the Company's obligations in respect of the payment of the principal (and premium, if any) and interest, if any, on the Securities shall terminate.

The Company hereby agrees that all payments of, or in respect of, principal of (and premium, if any) and any interest on, the Securities, shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by Australia or any political subdivision or taxing authority thereof or therein to be withheld or deducted. In that event, the Company will pay such additional amounts of, or in respect of, principal of (and premium, if any) and any interest on, the Securities ("Additional Amounts") as will result (after deduction of such taxes, duties, assessments or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such) in the payment to the Holder of this Security of the amounts which would have been payable in respect of this Security had no such withholding or deduction been required, except that no Additional Amounts shall be so payable for or on account of (1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the fact that such Holder (A) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, Australia or otherwise had some connection with Australia other than the mere ownership of, or receipt of payment under this Security or this Guarantee; (B) presented this Security or this Guarantee for payment in Australia, unless this Security or this Guarantee could not have been presented for payment elsewhere; or (C) presented this Security or this Guarantee, as the case may be, more than thirty (30) days after the date on which the payment in respect of this Security first became due and payable or provided for, whichever is later, except to the extent that the Holder would have been entitled to such Additional Amounts if it had presented this Security or this Guarantee for payment on any day within such period of thirty (30) days, (2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge or any withholding or deduction on

account of such taxes, (3) any tax, assessment or other governmental charge which is payable otherwise than by withholding or deduction from payments of (or in respect of) principal of (or premium, if any), or any interest pursuant to this Security or this Guarantee, (4) any withholding, deduction, tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the Holder or the beneficial owner of this Security with a request of the Company or the Company addressed to such Holder or beneficial owner, as the case may be, (A) to provide information concerning the nationality, residence or identity of such Holder or such beneficial owner or (B) to make any declaration or other similar claim or satisfy any information or reporting requirement, which, in the case of (A) or (B), is required or imposed by a statute, treaty, regulation or administrative practice of Australia or any political subdivision or taxing authority thereof or therein as a precondition to exemption from all or part of such withholding, deduction, tax, assessment or other governmental charge, (5) any withholding, deduction, tax, assessment or other governmental charge which is imposed or withheld by reason of such Holder being an associate of the Company or the Company for the purposes of Section 128(F) of the Income Tax Assessment Act 1936 of Australia, (6) a determination by the Commissioner of Taxation that Australian interest withholding tax is payable in respect of the amount in the circumstances where the Holder or such entity, or a person on behalf of the Holder or such entity, is party to or participated in a scheme to avoid Australian interest withholding tax, being a scheme which the Company neither was party to nor participated in, or (7) any combination of items (l), (2), (3), (4), (5) and (6), nor shall Additional Amounts be paid with respect to any payment of, or in respect of, the principal of (and premium, if any), or any interest on, this Security to any such Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Australia or any political subdivision or taxing authority thereof or therein to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, any of whom would not have been entitled to such Additional Amounts had it been the Holder of this Security.

The Securities are entitled to the benefits of the covenants of the Company or the Guarantor, as the case may be, set forth in the Fiscal Agency Agreement.

As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the obligations of the Company under the Fiscal Agency Agreement and this Security are Guaranteed pursuant to the Guarantee endorsed hereon.

The Fiscal Agency Agreement contains provision for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Fiscal Agency Agreement.

The Fiscal Agency Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the Guarantor and the rights of the Holders of the Securities under the Fiscal Agency Agreement at any time by the Company, the Guarantor and the Fiscal Agent with either (a) the consent of the Holders of a majority in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding or (b) by the adoption of a resolution, at a meeting of Holders of Outstanding Securities at which a quorum is present, by the Holders of a majority in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding represented at such meeting. The Fiscal Agency Agreement also contains provisions permitting the Holders of specified percentages in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding, on behalf of the Holders of all Securities under the Fiscal Agency Agreement at the time Outstanding, to waive compliance by the Company and the Guarantor with certain provisions of the Fiscal Agency Agreement and certain past defaults under the Fiscal Agency Agreement and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Fiscal Agency Agreement, the Holder of this Security shall not have the right to institute any proceeding with respect to the Fiscal Agency Agreement or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Fiscal Agent written notice of a continuing Event of Default with respect to the Securities under the Fiscal Agency Agreement, the Holders of not less than 25% in principal amount of the Securities under the Fiscal Agency Agreement at the time Outstanding shall have made written request to the Fiscal Agent to institute proceedings in respect of such Event of Default as Fiscal Agent and offered the reasonable indemnity, and the Fiscal Agent shall not have received from the Holders of a majority in principal amount of Securities under the Fiscal Agency Agreement at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Fiscal Agency Agreement and no provision of this Security or of the Fiscal Agency Agreement shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of like tenor, of authorized denominations and for the same aggregate principal amount and with the Guarantee endorsed thereon, will be

issued to the designated transferee or transferees. As provided in the Fiscal Agency Agreement and subject to certain limitations therein set forth, the Securities are exchangeable for a like aggregate principal amount of Securities and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

[IF THIS SECURITY IS A TEMPORARY REGULATION S SECURITY -- This Temporary Regulation S Security is exchangeable in whole for a Regulation S Global Security only (i) after the termination of the Restricted Period (as defined in the Fiscal Agency Agreement) and (ii) upon presentation of certification of non-United States beneficial ownership of 100% of the aggregate principal amount of this Temporary Regulation S Security, as required in the Fiscal Agency Agreement. Upon exchange of this Temporary Regulation S Global Security for a Regulation S Global Security, the Fiscal Agent shall cancel this Temporary Regulation S Global Security and it shall become void.]

This Security, and any Security or Securities issued upon transfer or exchange hereof, is issuable only in fully registered form, without coupons, and, except as provided in the Fiscal Agency Agreement, in denominations of $1,000 and any integral multiples of $1,000 in excess thereof.

[IF THIS SECURITY IS A GLOBAL SECURITY -- This Security is a Global Security and shall be exchangeable for Securities registered in the names of Persons other than the Depositary with respect to this Global Security or its nominee only if (i) such Depositary notifies the Company that it is unwilling or unable to continue as Depositary for this Global Security or at any time ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended, or (ii) there shall have occurred and be continuing an Event of Default with respect to the Securities.]

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Guarantor, the Fiscal Agent and any agent of the Company, the Guarantor, or the Fiscal Agent may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Guarantor, the Fiscal Agent nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Fiscal Agency Agreement shall have the meanings assigned to them in the Fiscal Agency Agreement.

THE FISCAL AGENCY AGREEMENT AND THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, THE UNITED STATES OF AMERICA, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

SECTION 2.7. Form of Fiscal Agent's Certificate of Authentication of 8.20% Notes.

The Fiscal Agent's certificates of authentication shall be in substantially the following form:

This is one of the Securities referred to in the within-mentioned Fiscal Agency Agreement.

Dated:

U.S. Bank Trust National Association,
as Fiscal Agent

By:_____
Authorized Signatory

SECTION 2.8. Form of Guarantee.

GUARANTEE

For value received, the Guarantor named (or deemed herein to be named) below hereby unconditionally guarantees, to the Holder of the Security upon which this Guarantee is endorsed, and to the Fiscal Agent on behalf of such Holder,

the due and punctual payment of the principal of (and premium, if any) and interest on such Security when and as the same shall become due and payable, whether at the Stated Maturity, by acceleration, call for redemption, purchase or otherwise, according to the terms thereof and of the Fiscal Agency Agreement referred to therein. In case of the failure of the Company punctually to make any such payment, the Guarantor hereby agrees to cause such payment to be made punctually when and as the same shall become due and payable, whether at the Stated Maturity or by acceleration, call for redemption, purchase or otherwise, and as if such payment were made by the Company.

The Guarantor hereby agrees that all payments pursuant to this Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by Australia or any political subdivision or taxing authority thereof or therein to be withheld or deducted. In that event, the Guarantor will pay such additional amounts of, or in respect of, payments pursuant to this Guarantee ("Additional Amounts") as will result (after deduction of such taxes, duties, assessments or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such) in the payment to the Holder of this Security of the amounts which would have been payable in respect of this Guarantee had no such withholding or deduction been required, except that no Additional Amounts shall be so payable for or on account of (1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the fact that such Holder (A) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, Australia or otherwise had some connection with Australia other than the mere ownership of, or receipt of payment under this Security or this Guarantee; (B) presented this Security or this Guarantee for payment in Australia, unless this Security or this Guarantee could not have been presented for payment elsewhere; or (C) presented this Security or this Guarantee, as the case may be, more than thirty (30) days after the date on which the payment in respect of this Security first became due and payable or provided for, whichever is later, except to the

extent that the Holder would have been entitled to such Additional Amounts if it had presented this Security or this Guarantee for payment on any day within such period of thirty (30) days, (2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge or any withholding or deduction on account of such taxes, (3) any tax, assessment or other governmental charge which is payable otherwise than by withholding or deduction from payments pursuant to this Guarantee, (4) any withholding, deduction, tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the Holder or the beneficial owner of this Security with a request of the Company or the Guarantor addressed to such Holder or beneficial owner, as the case may be, (A) to provide information concerning the nationality, residence or identity of such Holder or such beneficial owner or (B) to make any declaration or other similar claim or satisfy any information or reporting requirement, which, in the case of (A) or (B), is required or imposed by a statute, treaty, regulation or administrative practice of Australia or any political subdivision or taxing authority thereof or therein as a precondition to exemption from all or part of such withholding, deduction, tax, assessment or other governmental charge, (5) any withholding, deduction, tax, assessment or other governmental charge which is imposed or withheld by reason of such Holder being an associate of the Company or the Guarantor for the purposes of Section 128(F) of the Income Tax Assessment Act 1936 of Australia, (6) a determination by the Commissioner of Taxation that Australian interest withholding tax is payable in respect of the amount in the circumstances where the Holder or such entity, or a person on behalf of the Holder or such entity, is party to or participated in a scheme to avoid Australian interest withholding tax, being a scheme which the Company neither was party to nor participated in, or (7) any combination of items (l), (2), (3), (4), (5) and (6), nor shall Additional Amounts be paid with respect to any payments pursuant to this Guarantee to any such Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Australia or any political subdivision or taxing authority thereof or therein to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, any of whom would not have been

51
entitled to such Additional Amounts had it been the Holder of this Security.

The Guarantor has agreed that if the sale and purchase of the Sale Shares pursuant to the Acquisition Agreement does not occur before August 25, 2000, the Guarantor shall assume all of the obligations of the Company under the Fiscal Agency Agreement, the Purchase Agreement and the Securities in accordance with the Assumption Agreement, the terms of which are deemed to be incorporated herein as if set forth in full in this Guarantee.

The Guarantor hereby agrees that its obligations hereunder shall be unconditional, irrespective of (i) the validity, regularity or enforceability of such Security or the Fiscal Agency Agreement, (ii) the absence of any action to enforce the same, (iii) any creation, exchange, release or non-perfection of any Lien on any collateral for, or any release or amendment or waiver of any term of any other Guarantee of, or any consent to departure from any requirement of any other Guarantee of, all or of any of the Securities, (iv) the election by the Fiscal Agent or any of the Holders in any proceeding under Chapter 11 of the Bankruptcy Code of the application of Section 1111(b)(2) of the Bankruptcy Code, (v) any borrowing or grant of a security interest by the Company, as debtor-in-possession, under Section 364 of the Bankruptcy Code, (vi) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the claims of the Fiscal Agent or any of the Holders for payment of any of the Securities, (vii) any waiver or consent by the Holder of such Security or by the Fiscal Agent or either of them with respect to any provisions thereof or of the Fiscal Agency Agreement, (viii) the obtaining of any judgment against the Company or any action to enforce the same or (ix) any other circumstances which might otherwise constitute a legal or equitable discharge or defense of the Guarantor. For purposes of clauses (iv), (v) and (vi) of the foregoing sentence, references to sections of the Bankruptcy Code shall be deemed to include any equivalent or like provisions of Australian or Iowa law which might be applicable to the Company or the Guarantor, as the case may be. The Guarantor hereby waives the benefits of diligence, presentment, demand of payment, any requirement that the Fiscal Agent or any of the Holders protect, secure, perfect or insure any security interest in or other Lien on any property subject thereto or exhaust any right or take any action against the Company or

any other Person or any collateral, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest or notice with respect to such Security or the indebtedness evidenced thereby and all demands whatsoever, and covenants that this Guarantee will not be discharged except by complete performance of the obligations contained in such Security and in this Guarantee. The Guarantor hereby agrees that, in the event of a default in payment of principal (or premium, if any) or interest on such Security, whether at their Stated Maturity, by acceleration, call for redemption, purchase or otherwise, legal proceedings may be instituted by the Fiscal Agent on behalf of, or by, the Holder of such Security, subject to the terms and conditions set forth in the Fiscal Agency Agreement, directly against the Guarantor to enforce this Guarantee without first proceeding against the Company. The Guarantor agrees that if, after the occurrence and during the continuance of an Event of Default, the Fiscal Agent or any of the Holders are prevented by applicable law from exercising their respective rights to accelerate the maturity of the Securities, to collect interest on the Securities, or to enforce or exercise any other right or remedy with respect to the Securities, the Guarantor agrees to pay to the Fiscal Agent for the account of the Holders, upon demand therefor, the amount that would otherwise have been due and payable had such rights and remedies been permitted to be exercised by the Fiscal Agent or any of the Holders.

No reference herein to the Fiscal Agency Agreement and no provision of this Guarantee or of the Fiscal Agency Agreement shall alter or impair the Guarantee of the Guarantor, which is absolute and unconditional, of the due and punctual payment of the principal (and premium, if any) and interest on the Security upon which this Guarantee is endorsed.

The Guarantor shall be subrogated to all rights of the Holder of such Security against the Company in respect of any amounts paid by the Guarantor on account of such Security pursuant to the provisions of the Guarantee or the Fiscal Agency Agreement; provided, however, that the Guarantor shall not, without the consent of the Holders of all the Outstanding Securities be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until the principal of (and premium, if

any) and interest on this Security and all other Securities issued under the Fiscal Agency Agreement shall have been paid in full.

This Guarantee shall remain in full force and effect and continue to be effective should any petition be filed by or against the Company for liquidation or reorganization should the Company become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of the Company's assets, and shall, to the fullest extent permitted by law, continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Securities is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee on the Securities, whether as a "voidable preference," "fraudulent transfer" or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Securities shall, to the fullest extent permitted by law, be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

The Guarantor shall be released from this Guarantee upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement.

All terms used in this Guarantee which are defined in the Fiscal Agency Agreement referred to in the Security upon which this Guarantee is endorsed shall have the meanings assigned to them in such Fiscal Agency Agreement.

This Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Security upon which this Guarantee is endorsed shall have been executed by the Fiscal Agent under the Fiscal Agency Agreement by manual signature.

Reference is made to Article XII of the Fiscal Agency Agreement for further provisions with respect to this Guarantee.

THIS GUARANTEE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF.

IN WITNESS WHEREOF, the Guarantor has caused this Guarantee to be duly executed.

Principal Financial Services, Inc.,
As Guarantor

By:_____
[Officer]

By:_____
[Officer]

Attest:

_____
[Secretary]
[Assistant Secretary]

SECTION 2.9. Registrar, Paying Agent, Depository and Custodian. (a) The Company shall appoint itself or another Person to maintain an office or agency where Securities may be presented for registration of transfer or exchange (the Company or such other Person being referred to, in such capacity, as the "Registrar"). As set forth in Article IV hereof, the Registrar shall keep a register of each series of the Securities and of their transfer and exchange (the "Register"). The Company may appoint one or more co-Registrars (each, a "Co-Registrar") and may act as Co-Registrar. The Company initially appoints the Fiscal Agent to act as Registrar.

(b) The Company shall appoint itself or another Person to maintain an office or agency where Securities may be presented for payment (the Company or such other Person being referred to, in such capacity, as the "Paying Agent"). The term "Paying Agent" includes any additional paying agent. The Company initially appoints the Fiscal Agent to act as Paying Agent.

(c) The Company shall appoint one or more other Persons to act as Depository with respect to any Securities

issued in global form. The Company initially appoints DTC to act as Depository with respect to the Securities issued in global form. The Company may, in certain circumstances, appoint a successor Depository, and may at any time determine that the Securities issued in the form of global Securities shall no longer be represented by such global Securities.

(d) The Company shall appoint itself or one or more other Persons to act as custodian for the Depository (the "Custodian") with respect to any Securities issued in global form. The Company initially appoints the Fiscal Agent to act as Custodian with respect to the Securities in global form.

(e) The Company shall notify the Fiscal Agent of the name and address of the Depository and of any Agent not a party to this Agreement, and shall give the Fiscal Agent at least thirty days' notice prior to changing the Depository or any such Agent.

SECTION 2.10. Payment on Securities. (a) The Company shall provide to the Paying Agent, in immediately available funds on or prior to 11:30 a.m., New York time, on each Interest Payment Date or the applicable Maturity Date, such amount, in U.S. dollars, as is necessary to make such payment as is due, and the Company hereby authorizes and directs the Paying Agent from funds so provided to it to make or cause to be made payment of the principal of and interest on the Securities in the manner, at the times and for the purposes set forth herein and in the text of the Securities; provided that any payment of interest on the Securities may be made by check mailed to the Holders as of the close of business on the relevant Record' Date. Payments of interest on or principal of the Securities shall be made, in the case of a Holder of at least $5,000,000 aggregate principal amount of Securities, by wire transfer to an account maintained by the payee ,with a bank if such Holder so elects by giving notice to the Paying Agent, not less than 15 days (or such fewer days as the Paying Agent may accept at its discretion) prior to the date on which such (*)payments are scheduled to be made, of such election and of the account to which payment is to be made. Unless such designation is revoked, any such designation made by such Holder with respect to such Securities shall remain in effect with respect to any future payments with respect to such Securities payable to such Holder. The Company shall

pay any reasonable administrative costs in connection with making any such payments.

(b) The Company will pay interest on each Security on each Interest Payment Date to the Holder of such Security as of the close of business on the Record Date for the applicable Interest Payment Date or on the subsequent special record date, if any, determined pursuant to Section 4.1. The Company will make payment of the principal of the Securities on the applicable Maturity Date to the Holder of such Security against presentation and surrender thereof at the principal office of the Paying Agent, or at such other location of a Paying Agent as the Company shall have otherwise instructed the Fiscal Agent in writing.

(c) Interest will continue to accrue at the Stated Rate on (i) any unpaid principal and (ii) to the extent permitted by law, any payment of interest which is not punctually paid or duly provided for on the applicable Interest Payment Date, in each case to, but not including, the date of actual payment.

(d) The Company shall require each Paying Agent other than the Fiscal Agent to agree in writing that the Paying Agent will hold on behalf of the Fiscal Agent all money held by the Paying Agent for the payment of principal of or interest on the Securities, and will notify the Fiscal Agent of any failure by the Company to make any such payment. Until any such failure has been remedied, the Fiscal Agent may require a Paying Agent to pay all money held by it to the Fiscal Agent. In the event the Company wishes to terminate the Fiscal Agent's appointment as Paying Agent, the Company shall provide ten days' prior written notice to the Fiscal Agent that the Fiscal Agent's appointment to act as Paying Agent is so terminated and the Fiscal Agent may rely on such notice. The Company at any time may require a Paying Agent to pay all money held by the Paying Agent to the Fiscal Agent. Upon doing so, the Paying Agent shall have no further liability for the money so paid.

SECTION 2.11. Holder Lists. The Fiscal Agent shall preserve in as current a form as is reasonably practicable a separate list of the names and addresses of Holders of each series of the Securities. If the Fiscal Agent is not the Registrar, the Company shall furnish to the Fiscal Agent not less than five business days prior to each Interest Payment Date and at such other times as the Fiscal

Agent may request in writing a separate list in such form and as of such date as the Fiscal Agent may reasonably require of the names and addresses of Holders of each series of the Securities.

SECTION 2.12. Outstanding Securities. The Securities outstanding at any time are only those Securities authenticated by the Fiscal Agent (or an authenticating agent appointed pursuant to Section 3.3), except for those cancelled by the Fiscal Agent, those delivered to the Fiscal Agent for cancellation, those reductions in the interest in a Global Security effected by the Fiscal Agent hereunder, and those described in this Section as not outstanding.

A Security does not cease to be outstanding because the Company holds the Security.

If a Security is replaced pursuant to Section 3.6, it ceases to be outstanding unless the Fiscal Agent receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

Securities are not outstanding which have been called for redemption in accordance with Article VIII or which otherwise have become payable at the Maturity Date and, in each case, monies sufficient to pay the principal thereof and any interest thereon have been paid.

SECTION 2.13. Treasury Securities. In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent required or permitted to be given to the Fiscal Agent under this Agreement, Securities owned by the Company or any subsidiary or affiliate of the Company shall be disregarded, except that for the purposes of determining whether the Fiscal Agent shall be protected in relying on any such direction, waiver or consent, only Securities which the Company declares in writing to the Fiscal Agent as being so owned shall be so disregarded.

ARTICLE III

THE SECURITIES

SECTION 3.1. Title and Terms.

The Securities shall be issued in two separate series and shall be known and designated as the "7.95% Notes due August 15, 2004" and the "8.20% Notes due August 15, 2009" of the Company. The aggregate principal amount of the 7.95% Notes which may be authenticated and delivered under this Fiscal Agency Agreement is limited to $200,000,000 and the aggregate principal amount of the 8.20% Notes which may be authenticated and delivered under this Fiscal Agency Agreement is limited to $465,000,000, and the aggregate principal amount of Additional Securities which may be authenticated and delivered under this Fiscal Agency Agreement is limited to the amount determined in accordance with Section 3.3, except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.3, 3.4, 3.5, 3.6 or 9.7 of this Fiscal Agency Agreement. In no event shall the aggregate principal amount of Outstanding Securities exceed $665,000,000 and up to the aggregate principal amount of Additional Securities of one or more series issued subsequently, in the manner set forth in Section 3.3.

Each of the two series (each, a "series") of the Securities issued hereunder shall be treated separately for purposes of the acts of Holders permitted or required under the Fiscal Agency Agreement, the giving of waivers or consents by Holders, Events of Default and accelerations of the respective series, registrations of transfer and exchange of Securities, replacement of Securities, and all other events and actions under the Fiscal Agency Agreement as to which the interests of the Holders of the separate series of the Securities may differ or it is otherwise appropriate to treat such series separately, whether or not express mention is made of such separate treatment in a particular context.

The Stated Maturity of the 7.95% Notes shall be August 15, 2004 and they shall bear interest at the rate of 7.95% per annum from August 25, 1999 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually

in arrears on February 15 and August 15 of each year, commencing February 15, 2000, and at Maturity, until the principal thereof is paid or made available for payment, provided that any amount of such principal or interest that is overdue shall bear interest at the rate of 7.95% per annum (to the extent that the payment of such interest shall be legally enforceable), from the date such amount is due until it is paid or made available for payment, and such interest on any overdue amount shall be payable on demand. The Regular Record Date for the 7.95% Notes for the interest payable on any Interest Payment Date shall be the February 1 and August 1, as the case may be, immediately preceding such Interest Payment Date.

The Stated Maturity of the 8.20% Notes shall be August 15, 2009, and they shall bear interest at the rate of 8.20% per annum from August 25, 1999 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually in arrears on February 15 and August 15 of each year, commencing February 15, 2000, and at Maturity, until the principal thereof is paid or made available for payment, provided that any amount of such principal or interest that is overdue shall bear interest at the rate of 8.20% per annum (to the extent that the payment of such interest shall be legally enforceable), from the date such amount is due until it is paid or made available for payment, and such interest on any overdue amount shall be payable on demand. The Regular Record Date for the 8.20% Notes for the interest payable on any Interest Payment Date shall be the February 1 and August 1, as the case may be, immediately preceding such Interest Payment Date.

Payment of the principal (and premium, if any) of the Securities and the interest due at Stated Maturity will be made at the office or agency of U.S. Bank Trust National Association maintained for that purpose in New York, New York, or at such other paying agency as the Company may determine. Payments of interest, other than interest due at Stated Maturity, will be made to the address of the Person entitled thereto as such address shall appear in the Security Register. A Holder of U.S. $5,000,000 or more in aggregate principal amount of Securities having the same Interest Payment Date will be entitled to receive payments of interest, other than interest due at Stated Maturity, by wire transfer if appropriate wire transfer instructions have been received by the Paying Agent in writing not less than

60
15 calendar days prior to the applicable Interest Payment Date.

The Securities shall be redeemable by the Company prior to maturity as set forth in Section 8.8 herein. No sinking fund is provided for in the Securities.

The Company shall have no obligation to redeem or purchase the Securities pursuant to any sinking fund or analogous provision, or at the option of a Holder thereof.

The Securities shall be executed, authenticated, delivered and dated in accordance with Section 3.3 herein.

The Securities shall be entitled to the benefits of Article XII herein providing for the unconditional guarantee by the Guarantor of the due and punctual payment of the principal of and interest on the Securities when as the same shall become due and payable, whether at the Stated Maturity, by acceleration, purchase or otherwise, in accordance with the terms of the Securities and the Fiscal Agency Agreement.

SECTION 3.2. Denominations.

The Securities shall be issuable only in registered form without coupons only in denominations of $1,000 and except that Securities offered to Institutional Accredited Investors will be issued only in definitive certificated form and will be issued initially in minimum denominations of $100,000 and integral multiples of $1,000 in excess thereof.

SECTION 3.3. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, Chief Executive Officer, its President or one of its Vice Presidents or one of its directors. The signature of any of these officers on the Securities may be manual or facsimile. The signatures required hereby may in each case be the manual signatures of any person duly delegated by a director.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper

officers or directors of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Fiscal Agency Agreement, the Company may deliver Securities executed by the Company and having endorsed (by attachment or imprint) thereon the Guarantees executed as provided in Section 12.2 by the Guarantor to the Fiscal Agent for authentication, together with a Company Order for the authentication and delivery of such Securities with such Guarantees endorsed thereon; and the Fiscal Agent in accordance with such Company Order shall authenticate and deliver such Securities with such Guarantees endorsed thereon as in this Fiscal Agency Agreement provided and not otherwise.

Each Security shall be dated the date of its authentication.

No Security or Guarantee endorsed thereon shall be entitled to any benefit under this Fiscal Agency Agreement or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Fiscal Agent by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and that each Guarantee endorsed thereon has been duly endorsed thereon and delivered hereunder.

The Fiscal Agent may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Fiscal Agent may do so, other than upon original issuance or pursuant to Section 3.6. Each reference in this Agreement to authentication by the Fiscal Agent includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company.

The Company shall be entitled, subject to Section 3.1, to issue Additional Securities under this Fiscal Agency Agreement which shall have identical terms as the Securities of any series issued on the Issue Date, other than with respect to the date of issuance, issue price and

amount of interest payable on the first payment date applicable to such series. The Securities of any series issued on the Issue Date and any Additional Securities of such series shall be treated as a single class for all purposes under this Fiscal Agency Agreement.

With respect to any Additional Securities, the Company shall set forth in a Board Resolution and an Officer's Certificate, a copy of each of which shall be delivered to the Fiscal Agent, the following information:

(1) the series and the aggregate principal amount of such Additional Securities to be authenticated and delivered pursuant to this Fiscal Agency Agreement; and

(2) the issue price, the issue date and the CUSIP, common code and ISIN numbers of such Additional Securities and the amount of interest payable on the first payment date applicable thereto; provided, however, that no Additional Securities may be issued at a price that would cause such Additional Securities to have "original issue discount" within the meaning of Section 1273 of the U.S. Internal Revenue Code of 1986, as amended.

SECTION 3.4. Temporary Securities Other Than Regulation S Temporary Securities.

Pending the preparation of definitive Securities and Guarantees, the Company may execute, and upon Company Order the Fiscal Agent shall authenticate and deliver, temporary Securities with temporary Guarantees endorsed thereon, which Securities and Guarantees are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities and Guarantees, respectively, in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities and Guarantees may determine, as evidenced by their execution thereof.

If temporary Securities are issued, the Company will cause definitive Securities and Guarantees to be prepared without unreasonable delay. After the preparation of definitive Securities and Guarantees, the temporary Securities shall be exchangeable for definitive Securities

with definitive Guarantees endorsed thereon, upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to this Fiscal Agency Agreement, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Fiscal Agent shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations having endorsed thereon definitive Guarantees executed by the Guarantor. Until so exchanged the temporary Securities and Guarantees shall in all respects be entitled to the same benefits under this Fiscal Agency Agreement as definitive Securities and Guarantees, respectively.

SECTION 3.5. Registration, Registration of Transfer and Exchange Generally; Restrictions on Transfer and Exchange.

(a) Registration, Registration of Transfer and Exchange Generally. The Company shall cause to be kept at the Corporate Trust Office of the Fiscal Agent a register (the register maintained in such office and in any other office or agency of the Company designated pursuant to this Fiscal Agency Agreement being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers and exchanges of Securities. The Fiscal Agent is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers and exchanges of Securities as herein provided.

Upon surrender for registration of transfer of any Security at an office or agency of the Company designated pursuant to this Fiscal Agency Agreement for such purpose, the Company shall execute, and the Fiscal Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denominations, of a like aggregate principal amount and bearing such restrictive legends as may be required by this Fiscal Agency Agreement, each such new Security having endorsed thereon the Guarantee executed by the Guarantor.

At the option of the Holder, and subject to the other provisions of this Section 3.5, Securities may be exchanged for other Securities of any authorized denominations, of a like aggregate principal amount, each such new Security having endorsed thereon the Guarantee executed by the Guarantor, upon surrender of the Securities to be exchanged at any such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Fiscal Agent shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities and the Guarantees endorsed thereon issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company and the Guarantor, evidencing the same debt, and entitled to the same benefits under this Fiscal Agency Agreement, as the Securities and Guarantees endorsed thereon, respectively, surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Security Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.3, 3.4, 3.5 or 8.7 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Security during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities selected for redemption under Section 8.3 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

(b) Certain Transfers and Exchanges. Notwithstanding any other provisions of the Fiscal Agency Agreement or the Securities (but subject to Section 2.1 hereof), transfers of a Global Security, in whole or in part, transfers and exchanges of interests therein of the kinds described in clauses (iii), (iv), (v), (vi), (vii) and (viii) below and exchanges of interests in Global Securities shall be made only in accordance with this Section 3.5. Transfers and exchanges subject to this Section 3.5 shall also be subject to the other provisions of the Fiscal Agency Agreement that are not inconsistent with this Section 3.5.

(i) Limitation on Transfers of a Global Security. A Global Security may not be transferred, in whole or in part, to any Person other than the U.S. Depositary or a nominee thereof, and no such transfer to any such other Person may be registered; provided that this clause (1) shall not prohibit any transfer of a Security that is issued in exchange for a Global Security but is not itself a Global Security. No transfer of a Security to any Person shall be effective under this Fiscal Agency Agreement or the Securities unless and until such Security has been registered in the name of such Person. Nothing in this Section 3.5(b)(i) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Security effected in accordance with the other provisions of this Section 3.5(b).

(ii) Temporary Regulation S Global Security. After the Restricted Period, if the holder of a beneficial interest in a Temporary Regulation S Global Security wishes to transfer such interest to a Person who wishes to take delivery thereof in the form of a beneficial interest in such Temporary Regulation S Global Security, such transfer may be effected, subject to the rules and procedures of the Depositary, Euroclear and Cedelbank, in each case to the extent applicable and as in effect from time to time (the "Applicable Procedures"), only in accordance with this Section 3.5(b)(ii). Upon delivery (a) by a beneficial owner of an interest in a Temporary Regulation S Global Security to Euroclear or Cedelbank, as the case may be, of an Owner Securities Certification, (b) by the transferee of such beneficial interest in the Temporary Regulation S Global Security to Euroclear or Cedelbank, as the case may be, of a written certification (a "Transferee Securities Certification") substantially in

the form of Annex C-3 hereto and (c) by Euroclear or Cedelbank, as the case may be, to the Fiscal Agent, as Security Registrar, of a Depositary Securities Certification, the Fiscal Agent may direct either Euroclear or Cedelbank, as the case may be, to reflect on its records the transfer of a beneficial interest in the Temporary Regulation S Global Security from the beneficial owner providing the Owner Securities Certification to the Person providing the Transferee Securities Certification.

(iii) Restricted Global Security to Temporary Regulation S Global Security. If the holder of a beneficial interest in the Restricted Global Security wishes at any time to transfer such interest to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Temporary Regulation S Global Security of the same series, such transfer may be effected, subject to the Applicable Procedures, only in accordance with the provisions of this Section 3.5(b)(iii). Upon receipt by the Fiscal Agent, as Security Registrar, at its office in The City of New York of (A) written instructions given in accordance with the Applicable Procedures from a member of, or participant in, the U.S. Depositary (an "Agent Member") directing the Fiscal Agent to credit or cause to be credited to a specified Agent Member's account a beneficial interest in the Temporary Regulation S Global Security in a principal amount equal to that of the beneficial interest in the Restricted Global Security of the same series to be so transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member (and the Euroclear or Cedelbank account, as the case may be) to be credited with, and the account of the Agent Member to be debited for, such beneficial interest and (C) a certificate in substantially the form set forth in Annex A-1 given by the holder of such beneficial interest, the Fiscal Agent, as Security Registrar, shall instruct the U.S. Depositary to reduce the principal amount of the applicable Restricted Global Security, and to increase the principal amount of the Temporary Regulation S Global Security of the same series, by the principal amount of the beneficial interest in the Restricted Global Security to be so transferred, and to credit or cause to be credited to the account of the Person specified

in such instructions (which shall be the Agent Member for Euroclear or Cedelbank or both, as the case may be) a beneficial interest in the Temporary Regulation S Global Security of the same series having a principal amount equal to the amount by which the principal amount of the Restricted Global Security was reduced upon such transfer.

(iv) Restricted Global Security to Regulation S Global Security. If the holder of a beneficial interest in a Restricted Global Security wishes at any time to transfer such interest to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Regulation S Global Security of the same series, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.5(b)(iv). Upon receipt by the Fiscal Agent, as Security Registrar, at its office in The City of New York of (A) written instructions given in accordance with the Applicable Procedures from an Agent Member directing the Fiscal Agent to credit or cause to be credited to a specified Agent Member's account a beneficial interest in a Regulation S Global Security in a principal amount equal to that of the beneficial interest in the Restricted Global Security of the same series to be so transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member (and, if applicable, the Euroclear or Cedelbank account, as the case may be) to be credited with, and the account of the Agent Member to be debited for, such beneficial interest and (C) a certificate in substantially the form set forth in Annex A-2 given by the holder of such beneficial interest, the Fiscal Agent, as Security Registrar, shall instruct the U.S. Depositary to reduce the principal amount of the applicable Restricted Global Security, and to increase the principal amount of the Regulation S Global Security of the same series, by the principal amount of the beneficial interest in the Restricted Global Security to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions (which during the Restricted Period shall be the Agent Member for Euroclear or Cedelbank or both, as the case may be) a beneficial interest in the Regulation S Global Security of the same series having a principal amount equal to the

amount by which the principal amount of the Restricted Global Security was reduced upon such transfer.

(v) Temporary Regulation S Global Security or Regulation S Global Security to Restricted Global Security. If the holder of a beneficial interest in a Temporary Regulation S Global Security or a Regulation S Global Security wishes at any time to transfer such interest to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Security of the same series, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.5(b)(v). Upon receipt by the Fiscal Agent, as Security Registrar, at its office in The City of New York of (A) written instructions given in accordance with the Applicable Procedures from an Agent Member directing the Fiscal Agent to credit or cause to be credited to a specified Agent Member's account a beneficial interest in a Restricted Global Security in a principal amount equal to that of the beneficial interest in the Temporary Regulation S Global Security of the same series or the Regulation S Global Security to be so transferred, (B) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member to be credited with, and the account of the Agent Member (and, if applicable, the Euroclear or Cedelbank account, as the case may be) to be debited for, such beneficial interest and (C) a certificate in substantially the form set forth in Annex B given by the holder of such beneficial interest, the Fiscal Agent, as Security Registrar, shall instruct the U.S. Depositary to reduce the principal amount of the applicable Temporary Regulation S Global Security or the Regulation S Global Security, as the case may be, and to increase the principal amount of the Restricted Global Security of the same series, by the principal amount of the beneficial interest in the Temporary Regulation S Global Security or the Regulation S Global Security to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Restricted Global Security of the same series having a principal amount equal to the amount by which the principal amount of the Temporary Regulation S Global

Security or the Regulation S Global Security, as the case may be, was reduced upon such transfer.

(vi) Non-Global Restricted Security to Global Security. If the holder of a Restricted Security (other than a Global Security) wishes at any time to transfer all or a portion of such Security to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Security, the Temporary Regulation S Global Security or the Regulation S Global Security, in each case of the same series, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.5(b)(vi). Upon receipt by the Fiscal Agent, as Security Registrar, at its office in The City of New York of (A) such Security and written instructions given in accordance with the Applicable Procedures from an Agent Member directing the Fiscal Agent to credit or cause to be credited to a specified Agent Member's account a beneficial interest in the Restricted Global Security, the Temporary Regulation S Global Security or the Regulation S Global Security, as the case may be, in a specified principal amount equal to the principal amount of the Restricted Security (or portion thereof) of the same series to be so transferred, and (B) an appropriately completed certificate substantially in the form set forth in Annex D-l hereto, if the specified account is to be credited with a beneficial interest in a Restricted Global Security, or Annex D-2 hereto, if the specified account is to be credited with a beneficial interest in the Temporary Regulation S Global Security or the Regulation S Global Security, given by the holder of such beneficial interest, the Fiscal Agent, as Security Registrar, shall cancel such Restricted Security (and issue a new Security in respect of any untransferred portion thereof) as provided in Section 3.5(b) and increase the principal amount of the Restricted Global Security, Temporary Regulation S Global Security or Regulation S Global Security, as the case may be, in each case of the same series, by the specified principal amount as provided in Section 3.5(d) (iii).

(vii) Exchanges. In the event that a Restricted Global Security or any portion thereof is exchanged for a Regulation S Global Security or Securities of the same series other than Global Securities, such other

Securities may in turn be exchanged (on transfer or otherwise) for Securities of the same series that are not Global Securities or for beneficial interests in a Global Security of the same series (if any is then outstanding) only in accordance with such procedures, which shall be substantially consistent with the provisions of clauses (i) through (vi) above and (viii) below (including the certification requirements intended to insure that transfers and exchanges of beneficial interests in a Global Security comply with Rule 144A, Rule 144 or Regulation S, as the case may be) and any Applicable Procedures, as may be from time to time adopted by the Company and the Fiscal Agent.

(viii) Interests in Temporary Regulation S Global Security to be Held Through Euroclear or Cedelbank. Until the termination of the Restricted Period, interests in the Temporary Regulation S Global Securities may be held only through Agent Members acting for and on behalf of Euroclear and Cedelbank, provided that this clause (viii) shall not prohibit any transfer in accordance with Section 3.5(b)(v) hereof.

(ix) Certain Initial Transfers of Non-Global Securities. In the case of Securities initially issued other than in global form, an initial transfer or exchange of such Securities that does not involve any change in beneficial ownership may be made to an Institutional Accredited Investor or Investors as if such transfer or exchange were not an initial transfer or exchange.

(c) Each Restricted Security and Global Security issued hereunder shall, upon issuance, bear the legends required by Section 2.2 or Section 2.5 to be applied to such a Security and such required legends shall not be removed from such Security except as provided in the next sentence or paragraph (d) of this Section 3.5. The legend required for a Restricted Security may be removed from a Security if there is delivered to the Company such satisfactory evidence, which may include an opinion of independent counsel licensed to practice law in the State of New York, as may be reasonably required by the Company that neither such legend nor the restrictions on transfer set forth therein are required to ensure that transfers of such Security will not violate the registration requirements of the Securities Act. Upon provision of such satisfactory evidence, the Fiscal

Agent, at the written direction of the Company, shall authenticate and deliver in exchange for such Security another Security or Securities of the same series having an equal aggregate principal amount that does not bear such legend. If such a legend required for a Restricted Security has been removed from a Security as provided above, no other Security issued in exchange for all or any part of such Security shall bear such legend, unless the Company has reasonable cause to believe that such other Security is a "restricted security" within the meaning of Rule 144 and instructs the Fiscal Agent in writing to cause a legend to appear thereon.

(d) The provisions of clauses (i), (ii), (iii) and (iv) below shall apply only to Global Securities:

(i) Each Global Security authenticated under the Fiscal Agency Agreement shall be registered in the name of the U.S. Depositary or a nominee thereof and delivered to such U.S. Depositary or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of the Fiscal Agency Agreement.

(ii) Notwithstanding any other provision in the Fiscal Agency Agreement or the Securities, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the U.S. Depositary or a nominee thereof unless (A) the U.S. Depositary (i) has notified the Company that it is unwilling or unable to continue as U.S. Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) in the case of a Global Security held for an account of Euroclear or Cedelbank, Euroclear or Cedelbank, as the case may be, (i) is closed for business for a continuous period of 14 days (other than by reason of statutory or other holidays) or (ii) announces an intention permanently to cease business or does in fact do so, (C) there shall have occurred and be continuing an Event of Default with respect to such Global Security or (D) a request for certificates has been made upon at least 60 days' prior written notice given to the Fiscal Agent in accordance with the U.S. Depositary's customary procedures and a copy of such notice has been received by the Company

from the Fiscal Agent. Any Global Security exchanged pursuant to clause (A) or (B) above shall be so exchanged in whole and not in part and any Global Security exchanged pursuant to clause (C) or (D) above may be exchanged in whole or from time to time in part as directed by the U.S. Depositary. Any Security issued in exchange for a Global Security or any portion thereof shall be a Global Security, provided that any such Security so issued that is registered in the name of a Person other than the U.S. Depositary or a nominee thereof shall not be a Global Security.

(iii) Securities issued in exchange for a Global Security or any portion thereof pursuant to clause (ii) above shall be of the same series as the Global Security to be exchanged, shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount equal to that of such Global Security or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the U.S. Depositary shall designate and shall bear any legends required hereunder. Any Global Security to be exchanged in whole shall be surrendered by the U.S. Depositary to the Fiscal Agent, as Security Registrar. With regard to any Global Security to be exchanged in part, either such Global Security shall be so surrendered for exchange or, if the Fiscal Agent is acting as custodian for the U.S. Depositary or its nominee with respect to such Global Security, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Fiscal Agent. Upon any such surrender or adjustment, the Fiscal Agent shall authenticate and make available for delivery the Security issuable on such exchange to or upon the written order of the U.S. Depositary or an authorized representative thereof.

(iv) In the event of the occurrence of any of the events specified in clause (ii) above, the Company will promptly make available to the Fiscal Agent a reasonable supply of certificated Securities in definitive, fully registered form, without interest coupons.

(v) No Agent Members nor any other Persons on whose behalf Agent Members may act (including Euroclear

and Cedelbank and account holders and participants therein) shall have any rights under the Fiscal Agency Agreement with respect to any Global Security, or under any Global Security, and the U.S. Depositary or such nominee, as the case may be, may be treated by the Company, the Fiscal Agent and any agent of the Company or the Fiscal Agent as the absolute owner and holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Fiscal Agent or any agent of the Company or the Fiscal Agent from giving effect to any written certification, proxy or other authorization furnished by the U.S. Depositary or such nominee, as the case may be, or impair, as between the U.S. Depositary, its Agent Members and any other person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of a holder of any Security.

SECTION 3.6. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Fiscal Agent, the Company shall execute and the Fiscal Agent shall authenticate and deliver in exchange therefor a new Security of like tenor and principal amount, having endorsed thereon the Guarantees executed by the Guarantor and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Fiscal Agent (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by either of them to save each of them, the Guarantor and any agent of any of them harmless, then, in the absence of notice to the Company or the Fiscal Agent that such Security has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Fiscal Agent shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, having endorsed thereon the Guarantees executed by the Guarantor and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and

payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Fiscal Agent) connected therewith.

Every new Security issued pursuant to this Section in lieu of any mutilated, destroyed, lost or stolen Security, and each Guarantee endorsed thereon, shall constitute an original additional contractual obligation of the Company and the Guarantor, respectively, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Fiscal Agency Agreement equally and proportionately with any and all other Securities and Guarantees, respectively, duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies of any Holder with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 3.7. Payment of Interest; Interest Rights Preserved.

Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the

Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Fiscal Agent in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Fiscal Agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Fiscal Agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Fiscal Agent shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Fiscal Agent of the notice of the proposed payment. The Fiscal Agent shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities at such Holder's address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Fiscal Agent of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Fiscal Agent.

Subject to the foregoing provisions of this Section, each Security delivered under this Fiscal Agency Agreement upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 3.8. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Guarantor, the Fiscal Agent and any agent of the Company, the Guarantor or the Fiscal Agent may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 3.7) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Guarantor, the Fiscal Agent nor any agent of the Company, the Guarantor or the Fiscal Agent shall be affected by notice to the contrary.

SECTION 3.9. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Fiscal Agent, be delivered to the Fiscal Agent and, together with the Guarantees endorsed thereon, shall be promptly cancelled by it. The Company may at any time deliver to the Fiscal Agent for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall, together with the Guarantees endorsed thereon, be promptly cancelled by the Fiscal Agent. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Fiscal Agency Agreement. All cancelled Securities held by the Fiscal Agent, together with the Guarantees endorsed thereon, shall be disposed of by the Fiscal Agent and the Fiscal Agent will certify as to such disposal to the reasonable satisfaction of the Company.

SECTION 3.10. Computation of Interest.

Interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months provided, however, that any interest on overdue principal of (and premium, if any) and interest on any Securities, shall be computed on the basis of a 365-day or 366-day year, as the case may be, and the number of days actually elapsed during the period of default in the payment of such overdue principal (and premium, if any) or interest.

ARTICLE IV

PAYMENT RESTRICTIONS

SECTION 4.1. Unpaid Amounts. Notwithstanding anything to the contrary set forth herein, any payment of interest on any Security which is not punctually paid or duly provided for on the applicable Interest Payment Date (such payment being referred to as an "Unpaid Amount"), will forthwith cease to be payable to the Holder of such Security at the close of business on the relevant Record Date, and such Unpaid Amount, together with accrued interest thereon (if any) will instead be payable on a subsequent special payment date to the Holder of such Security as of the close of business on a subsequent Special Record Date. The Company shall fix such Special Record Date and special payment date for any Unpaid Amount and at least 20 days before such special record date shall notify the Fiscal Agent in writing of the special record date, the special payment date and the amount of interest to be paid. At least 15 days before the special record date, the Fiscal Agent shall mail to each Holder of the Securities a notice that also states the special record date, special payment date and amount of interest to be paid. On the special payment date set forth in such notice, the Paying Agent shall pay the amount of interest to be so paid to each Holder of the Securities in the manner set forth in Section 2.10(a).

ARTICLE V

COVENANTS

SECTION 5.1. Payment of Principal and Interest. The Company will duly and punctually pay or cause to be paid the principal of and interest on the Securities in accordance with, and subject to, the terms of such Securities and this Agreement.

SECTION 5.2. Rule 144A Information. So long as the Guarantor is not subject to Section 13 or 15(d) of the Exchange Act, upon the request of a Holder, the Guarantor shall promptly furnish or cause the Fiscal Agent to furnish to such Holder or to a prospective purchaser of such Security designated by such Holder, as the case may be, the information required to be delivered pursuant to Rule 144A (d)(4) under the Securities Act ("Rule 144A Information") to permit compliance with Rule 144A in connection with resales of the Securities; provided, however, that the Guarantor shall not be required to furnish Rule 144A Information in connection with any request made on or after the date which is three years from the later of (x) the date of original issuance of such Security (or any predecessor Security) or (y) the date such Security (or any predecessor Security) was last held by the Guarantor or an affiliate of the Guarantor within the meaning of Rule 144 under the Securities Act. So long as the Guarantor is required to furnish Rule 144A Information as set forth herein, the Guarantor shall notify the Fiscal Agent in writing if at any time it becomes subject to Section 13 or 15(d) of the Exchange Act.

SECTION 5.3. Other Information. The Guarantor shall deliver to the Fiscal Agent, who shall deliver to each Holder without charge, (i) promptly after it is available, a copy of the Principal Financial Group's annual report to policyowners, (ii) upon written request, the Guarantor's audited consolidated financial statements and quarterly financial information and (iii) during any period in which the Guarantor is subject to Section 13 or 15(d) of the Exchange Act, the annual reports, quarterly reports and current reports which the Guarantor is required to file with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Exchange Act.

SECTION 5.4. Corporate Existence. Subject to Article VI, each of the Company and the Guarantor will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, material rights (charter and statutory) and franchises; provided, however, that neither the Company nor the Guarantor shall be required to preserve any such existence, right or franchise if the Board of Directors of the Company or the Guarantor, as the case may be, shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company or the Guarantor, as the case may be, or that not preserving such right or franchise is in the best interest of the Holders of the Company or the Guarantor, or the policyholders of Principal Life, as the case may be, and, in each case, that any such action is effected only in a manner which does not adversely affect the interests of any Holder in any material respect.

SECTION 5.5. Compliance with Investment Company Act. The Company is not an open-end investment company, closed-end investment company, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and will not take any action if such action would cause the Company to be in violation of the Investment Company Act at any time prior to payment in full of the Securities.

SECTION 5.6. Additional Amounts. All payments of, or in respect of, principal of (and premium, if any), and any interest on, the Securities, and all payments pursuant to the Guarantee, shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by Australia or any political subdivision or taxing authority thereof or therein to be withheld or deducted. In that event, the Company or Guarantor, as applicable, will pay such additional amounts of, or in respect of, principal of (and premium, if any), and any interest on, the Securities ("Additional Amounts") as will result (after deduction of such taxes, duties, assessments or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such) in the payment to the

Holder of each Security of the amounts which would have been payable in respect of such Security or the Guarantee, as the case may be, had no such withholding or deduction been required, except that no Additional Amounts shall be so payable for or on account of:

(1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the fact that such Holder: (A) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, Australia or otherwise had some connection with Australia other than the mere ownership of, or receipt of payment under such Security or Guarantee; (B) presented such Security or Guarantee for payment in Australia, unless such Security or Guarantee could not have been presented for payment elsewhere; or (C) presented such Security or Guarantee, as the case may be, more than thirty (30) days after the date on which the payment in respect of such Security first became due and payable or provided for, whichever is later, except to the extent that the Holder would have been entitled to such Additional Amounts if it had presented such Security or Guarantee for payment on any day within such period of thirty (30) days;

(2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge or any withholding or deduction on account of such taxes;

(3) any tax, assessment or other governmental charge which is payable otherwise than by withholding or deduction from payments of (or in respect of) principal of (and premium, if any), or any interest on, the Securities or the Guarantee;

(4) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the Holder or the beneficial owner of such Security with a request of the Company or the Guarantor addressed to such Holder or beneficial owner, as the case may be, (A) to provide information concerning the nationality, residence or identity of such Holder or such beneficial owner or (B) to make any declaration or other similar claim or satisfy any information or reporting requirement, which, in the

81

case of (A) or (B), is required or imposed by a statute, treaty, regulation or administrative practice of Australia or any political subdivision or taxing authority thereof or therein as a precondition to exemption from all or part of such withholding, deduction, tax, assessment or other governmental charge;

(5) any withholding, deduction, tax, assessment or other governmental charge which is imposed or withheld by reason of such Holder being an associate of the Company or the Guarantor for the purposes of Section 128(F) of the Income Tax Assessment Act 1936 of Australia;

(6) a determination by the Commissioner of Taxation that Australian interest withholding tax is payable in respect of the amount in the circumstances where the Holder or such entity, or a person on behalf of the Holder or such entity, is party to or participated in a scheme to avoid Australian interest withholding tax, being a scheme which the Company neither was party to nor participated in; or

(7) any combination of items (l), (2), (3), (4), (5) and (6);

nor shall Additional Amounts be paid with respect to any payment of, or in respect of, the principal of (and premium, if any), or any interest on, any such Security or Guarantee to any such Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of Australia or any political subdivision or taxing authority thereof or therein to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, any of whom would not have been entitled to such Additional Amounts had it been the Holder of the Security.

Whenever in this Agreement there is mentioned, in any context, the payment of, or in respect of, the principal of (and premium, if any), or any interest on, any Security or any payments pursuant to the Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section to the extent that, in such context, Additional Amounts are, were

or would be payable in respect thereof pursuant to the provisions of this Section, and any express mention of the payment of Additional Amounts in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

At least 10 days prior to each date on which the payment of, or in respect of, principal of (and premium, if any), and any interest on, any Security or any payment pursuant to the Guarantee is due and payable, if the Company or Guarantor will be obligated to pay Additional Amounts with respect to such payment, the Company or Guarantor, as the case may be, will deliver to the Fiscal Agent and the Paying Agent an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Fiscal Agent and such Paying Agent to pay such Additional Amounts to the Holders on the payment date; provided, however, that if 10 days prior to each date on which any such payment is due and payable the amount of such payment has not yet been determined, the Company or Guarantor, as the case may be, shall notify the Fiscal Agent of such amount promptly after such amount has been determined.

SECTION 5.7. Limitations upon Liens. The Company and the Guarantor will not, nor will they permit any Restricted Subsidiary of the Company or the Guarantor, directly or indirectly, to, create, issue, assume, incur, or guarantee or become liable with respect to any indebtedness for money borrowed if such indebtedness is secured by a Lien on any present or future common stock of any Restricted Subsidiary (whether such shares of common stock are now owned or hereafter acquired) without in any such case making or causing to be made effective a provision (and each of the Company and the Guarantor covenants that in any such case it shall make or cause to be made effective such provision) whereby the Securities, will be secured equally and ratably with, or prior to, such indebtedness or guarantee; it being understood that in such event the Company and the Guarantor may also so secure any other such indebtedness of the Company, the Guarantor or such Restricted Subsidiary entitled thereto, subject to any applicable priority of payment.

SECTION 5.8. Limitation on the Disposition of Stock of Restricted Subsidiaries. Except in a transaction

governed by Article VI of this Agreement, the Guarantor will not issue, sell, convey, lease, transfer or otherwise dispose of any shares of, securities convertible or exchangeable into or warrants, rights or options to sub- scribe for or purchase shares of, capital stock (other than preferred stock having no voting rights of any kind, except as required by law or in the event of non-payment of dividends) of any Restricted Subsidiary, nor will it permit any Restricted Subsidiary to issue (other than to the Guarantor) any shares (other than directors' qualifying shares) of, or securities convertible or exchangeable into, or warrants, rights or options to subscribe for or purchase shares of, capital stock (other than preferred stock having no voting rights of any kind, except as required by law or in the event of non-payment of dividends) of any Restricted Subsidiary if, after giving effect to any such transaction and the issuance of the maximum number of shares issuable upon the conversion or exercise of all such convertible securities, warrants, rights or options, the Guarantor would own, directly or indirectly, less than 80% of the capital stock of any of the Restricted Subsidiaries (other than preferred stock having no voting rights of any kind, except as required by law or in the event of non-payment of dividends); provided, however, that (i) any such issuance, sale, conveyance, lease, transfer or other disposition permitted by the foregoing may only be made for at least fair market value, as determined by the Board of Directors pursuant to a Board Resolution adopted in good faith, and (ii) the foregoing shall not prohibit any such issuance, sale, conveyance, lease, transfer or disposition of securities if required by any law or any regulation or order of any governmental or insurance regulatory authority, including, without limitation, any order of the Insurance Commissioner of the State of Iowa pursuant to Section 521A.14 of the Iowa Code or any successor provision. Notwithstanding the foregoing, the Guarantor may (x) merge or consolidate any of the Restricted Subsidiaries into or with another direct, wholly owned Subsidiary of the Guarantor and (y) subject to the provisions of Article VI of this Agreement, sell, convey, lease, transfer or otherwise dispose of the entire capital stock of any Restricted Subsidiary at one time for at least a fair market value consideration, as determined by the Board of Directors pursuant to a Board Resolution adopted in good faith.

SECTION 5.9. Annual Review Certificate; Notice of Defaults or Events of Default. Each of the Company and the

Guarantor covenants and agrees to deliver to the Fiscal Agent within 120 days after the end of each fiscal year of the Company and the Guarantor, respectively, ending after the date hereof, a certificate from the principal executive officer, principal financial officer or principal accounting officer of the Company or the Guarantor, as the case may be, covering the preceding calendar year, stating whether or not to the best knowledge of the signer(s) thereof the Company or the Guarantor, as the case may be, is in default in the performance, observance or fulfillment of or compliance with any of the terms, provisions, covenants and conditions of this Agreement, and if the Company or the Guarantor, as the case may be, shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge. For the purposes of this Section 5.9, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Agreement.

ARTICLE VI

REORGANIZATION, CONSOLIDATION, MERGER OR SALE BY THE COMPANY

SECTION 6.1. Consolidation, Merger or Sale of Assets Permitted. Neither the Company nor the Guarantor shall reorganize, consolidate with or merge with or into, or transfer or lease all or substantially all of its assets including, without limitation, in connection with a demutualization of Principal Mutual Holding Company to, any Person unless:

(1) the Person formed by or surviving any such reorganization, consolidation or any merger (if other than the Company or the Guarantor, as the case may be), or to which such transfer or lease shall have been made, is a corporation organized and existing under the laws of the Commonwealth of Australia or any State thereof, in the case of the Company, or under the laws of the United States, any State thereof or the District of Columbia, in the case of the Guarantor;

(2) the Person formed by or surviving any such reorganization, consolidation or merger (if other than the Company or the Guarantor, as the case may be), or to which such transfer or lease shall have been made, expressly assumes by supplemental fiscal agency

agreement hereto executed and delivered to the Fiscal Agent, in form satisfactory to the Fiscal Agent, the due and punctual payment of the principal, premium, if any, interest, if any and any Additional Amounts, with respect to all of the Securities and the performance or observance of every covenant under this Agreement and the Securities on the part of the Company and the Guarantor to be performed under the Securities and this Agreement;

(3) immediately after giving effect to the transaction and treating any indebtedness which becomes an obligation of the Company or the Guarantor or a Subsidiary of the Guarantor as a result of such transaction as having been incurred by the Company, the Guarantor or such Subsidiary at the time of such transaction no Default or Event of Default exists and is continuing;

(4) if, as a result of any such transaction, properties or assets of the Company or the Guarantor would become subject to a mortgage, pledge, lien, security interest or other encumbrance which would not be permitted by the Securities of any series, the Company, the Guarantor or such successor person, as the case may be, shall take such steps as shall be necessary effectively to secure such Securities equally and ratably with all indebtedness secured thereby; and

(5) each of the Company and the Guarantor shall deliver to the Fiscal Agent prior to the proposed transaction an Officers' Certificate to the foregoing effect and an Opinion of Counsel stating that the proposed transaction and such supplemental fiscal agency agreement comply with this Agreement and that all conditions precedent to the consummation of the transaction under this Agreement have been met.

In the event of the assumption by a successor corporation as provided in clause (2) above, such successor corporation shall succeed to and be substituted for the Company or the Guarantor, as the case may be, hereunder and under the Securities with the same effect as if it had been named hereunder and thereunder and, except in the case of a lease, any coupons appertaining thereto and all such obligations of the Company or the Guarantor, as the case may be, shall terminate.

ARTICLE VII

DEFAULTS AND REMEDIES

SECTION 7.1. Events of Default. An "Event of Default" occurs with respect to the Securities of either series if (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any payment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) the Company or the Guarantor defaults in the payment of interest on any Security of that series or any Additional Amount payable with respect to any Security of that series when the same becomes due and payable and such default continues for a period of 30 days;

(2) the Company or the Guarantor defaults in the payment of the principal of (or any premium on) any Security of that series when the same becomes due and payable at its maturity or on redemption or otherwise;

(3) the Company or the Guarantor fails to comply in any material respect with any of its agreements or covenants in, or any of the provisions of, this Agreement with respect to any Security of that series (other than an agreement, covenant or provision for which non-compliance is elsewhere in this Section specifically dealt with), and such non-compliance continues for a period of 90 days after there has been given by registered or certified mail, to the Company and the Guarantor by the Fiscal Agent or to the Company, the Guarantor and the Fiscal Agent by the Holders of at least 25% in principal amount of the Outstanding Securities of the series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(4) a default under any mortgage, agreement, Fiscal Agency Agreement or instrument under which there may be issued, or by which there may be secured, guaranteed or evidenced any Debt of the Company or the Guarantor (including this Agreement) whether such Debt

87

now exists or shall hereafter be created, in an aggregate principal amount then outstanding of $75,000,000 or more, which default (a) shall constitute a failure to pay a portion of the principal of such Debt when due and payable after the expiration of an applicable grace period with respect thereto or (b) shall result in such Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration shall not be rescinded or annulled, or such Debt shall not be paid in full within a period of 30 days after there has been given, by registered or certified mail, to the Company and the Guarantor by the Fiscal Agent or to the Company, the Guarantor and the Fiscal Agent by the Holders of at least 25% in aggregate principal amount of the Outstanding Securities of that series a written notice specifying such event of default and requiring the Company or the Guarantor, as the case may be, to cause such acceleration to be rescinded or annulled or to pay in full such Debt and stating that such notice is a "Notice of Default" hereunder; (it being understood however, that the Fiscal Agent shall not be deemed to have knowledge of such default under such agreement or instrument unless either (A) a Responsible Officer of the Fiscal Agent shall have actual knowledge of such default or (B) a Responsible Officer of the Fiscal Agent shall have received written notice thereof from the Company, from the Guarantor, from any Holder, from the holder of any such indebtedness or from the trustee under any such agreement or other instrument); provided, however, that if such default under such agreement or instrument is remedied or cured by the Company or the Guarantor, as the case may be, or waived by the holders of such indebtedness, then the Event of Default hereunder by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of either the Fiscal Agent or any of such Holders;

(5) the Company or the Guarantor, pursuant to or within the meaning of any Bankruptcy Law, (A) commences a voluntary case or proceeding, (B) consents to the entry of an order for relief against it in an involuntary case or proceeding, (C) consents to the appointment of a Receiver of it or for all or substantially all of its property, (D) makes a general

assignment for the benefit of its creditors, (E) makes an admission in writing of its inability to pay its debts generally as they become due or (F) takes corporate action in furtherance of any such action; or

(6) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the Company or the Guarantor, in an involuntary case, (B) adjudges the Company or the Guarantor as bankrupt or insolvent, or approves as properly filed a petition seeking reorganization, arrangement, and adjustment or composition of or in respect of the Company, or appoints a Receiver of the Company or the Guarantor, or for all or substantially all of its property, or (C) orders the liquidation of the Company or the Guarantor and the decree remains unstayed and in effect for 60 days.

The Company or the Guarantor shall deliver to the Fiscal Agent, within 90 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which is or with the giving of notice or the lapse of time would become an event which is or with the giving of notice or the lapse of time would become an Event of Default, its status and what action the Company or the Guarantor is taking or proposes to take with respect thereto.

As used in this Agreement, the term "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state bankruptcy, insolvency, reorganization or other law for the relief of debtors. As used in this Agreement, the term "Receiver" means any receiver, Fiscal Agent, assignee, liquidator or similar official under any Bankruptcy Law.

SECTION 7.2. Acceleration; Rescission and Annulment. If an Event of Default with respect to the Securities of either series at the time outstanding occurs and is continuing, the Fiscal Agent or the Holders of at least 25% in aggregate principal amount of all of the Outstanding Securities of that series by written notice to the Company and the Guarantor (and if given by the Holders, to the Fiscal Agent), may declare the principal of (and premium, if any) and accrued interest, if any, on all the Securities of that series to be due and payable and upon any such declaration such principal (and premium, if any) and interest, if any, shall be immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of either series has been made and before a judgement or decree for payment of the money due has been obtained by the Fiscal Agent as hereinafter in this Article provided, the Holders of a majority in aggregate principal amount of the Outstanding Securities of that series, by written notice to the Fiscal Agent, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Fiscal Agent a sum sufficient to pay

(A) in Dollars, all overdue interest on all Securities of that series and any Additional Amounts,

(B) in Dollars, the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities and any Additional Amounts payable, and

(D) all sums paid or advanced by the Fiscal Agent hereunder and the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel;

and

(2) all existing Defaults and Events of Default with respect to Securities of that series, other than the non-payment of the principal (and premium, if any) of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 7.7. No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 7.3. Collection of Indebtedness and Suits for Enforcement by Fiscal Agent. Each of the Company and the Guarantor covenants that if:

(1) default is made in the payment of any interest on any Security when such interest or any Additional Amounts becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the maturity thereof,

the Company or the Guarantor will, upon demand of the Fiscal Agent, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal, premium, if any, and interest and any Additional Amounts, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal, premium, if any, and on any overdue interest and any Additional Amounts, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel.

If an Event of Default with respect to Securities of either series occurs and is continuing, the Fiscal Agent may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Fiscal Agent shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Agreement or in aid of the exercise of any power granted herein, or to secure any other proper remedy.

SECTION 7.4. Fiscal Agent May File Proofs of Claim. The Fiscal Agent may file such proofs of claim and other papers or documents and take such actions as may be necessary or advisable in order to have the claims of the Fiscal Agent and the Holders of Securities allowed in any judicial proceedings relating to the Company, the Guarantor, their creditors or their property. In particular, the Fiscal Agent shall be authorized to collect and receive any moneys or other property payable or deliverable on any such

claims and to distribute the same; and any custodian, receiver, assignee, Fiscal Agent, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Fiscal Agent and, in the event that the Fiscal Agent shall consent to the making of such payments directly to the Holders, to pay to the Fiscal Agent any amount due it for the reasonable compensation, expenses, disbursements and advances of the Fiscal Agent, its agents and counsel, and any other amounts due the Fiscal Agent under Section 9.5.

No provision of this Agreement shall be deemed to authorize the Fiscal Agent to authorize or consent to or accept or adopt on behalf of any Holder of a Security any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Fiscal Agent to vote in respect of the claim of any Holder of a Security in any such proceeding; provided, however, that the Fiscal Agent may, on behalf of the Holders, vote for the election of a Fiscal Agent in bankruptcy or similar official and be a member of a creditors' or other similar committee.

SECTION 7.5. Fiscal Agent May Enforce Claims without Possession of Securities. All rights of action and claims under this Agreement or the Securities may be prosecuted and enforced by the Fiscal Agent, in its own name as an express trust, without the possession of any of the Securities or coupons or the production thereof in any proceeding relating thereto and any recovery of judgment shall, after provision for the reasonable fees and expenses of the Fiscal Agent and its counsel, be for the ratable benefit of the Holders of the Securities in respect to which judgment was recovered.

SECTION 7.6. Delay or Omission Not Waiver. No delay or omission by the Fiscal Agent or any Holder of any Securities to exercise any right or remedy accruing upon an Event of Default shall impair any such right or remedy or constitute a waiver of or acquiescence in any such Event of Default. Every right and remedy given by this Article or by law to the Fiscal Agent or to the Holders of Securities may be exercised from time to time, and as often as may be deemed expedient, by the Fiscal Agent or by the Holders of Securities.

SECTION 7.7. Waiver of Past Defaults. The Holders of a majority in aggregate principal amount of Outstanding Securities of either series by written notice to the Fiscal Agent may waive on behalf of the Holders of all Securities of such series a past Default or Event of Default with respect to that series and its consequences except (i) a Default or Event of Default in the payment of the principal of, premium, if any, or interest or any Additional Amounts on any Security of such series or (ii) in respect of a covenant or provision hereof which pursuant to Section 10.2 cannot be amended or modified without the consent of the Holder of each Outstanding Security of such series affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Agreement.

SECTION 7.8. Control by Majority. The Holders of a majority in aggregate principal amount of the Outstanding Securities of each series affected (with each such series voting as a class) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Fiscal Agent or exercising any trust or power conferred on it with respect to Securities of that series; provided, however, that (i) the Fiscal Agent may refuse to follow any direction that conflicts with law or this Agreement (ii) the Fiscal Agent may refuse to follow any direction that is unduly prejudicial to the rights of the Holders of Securities of such series not consenting or of any other series for which the Fiscal Agent is fiscal agent, or that would in the good faith judgment of the Fiscal Agent have a substantial likelihood of involving the Fiscal Agent in personal liability and (iii) the Fiscal Agent may take any other action deemed proper by the Fiscal Agent which is not inconsistent with such direction. Prior to the taking of any action hereunder, the Fiscal Agent shall be entitled to reasonable indemnification satisfactory to the Fiscal Agent against all losses and expenses caused by taking or not taking such action.

SECTION 7.9. Limitation on Suits by Holders. No Holder of any Security of either series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Agreement, or for the appointment of a receiver or Fiscal Agent, or for any other remedy hereunder, unless:

(1) the Holder has previously given written notice to the Fiscal Agent of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of at least 25% in aggregate principal amount of the Outstanding Securities of that series have made a written request to the Fiscal Agent to institute proceedings in respect of such Event of Default in its own name as Fiscal Agent hereunder;

(3) such Holder or Holders have offered to the Fiscal Agent indemnity satisfactory to the Fiscal Agent against any loss, liability or expense to be, or which may be, incurred by the Fiscal Agent in pursuing the remedy;

(4) the Fiscal Agent for 60 days after its receipt of such notice, request and the offer of indemnity has failed to institute any such proceedings; and

(5) during such 60 day period, the Holders of a majority in aggregate principal amount of the Outstanding Securities of that series have not given to the Fiscal Agent a direction inconsistent with such written request.

No one or more Holders shall have any right in any manner whatever by virtue of, or by availing of any provision of this Agreement to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Agreement, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 7.10. Rights of Holders to Receive Payment. Notwithstanding any other provision of this Agreement, the right of any Holder of a Security to receive payment of principal of, premium, if any, and, subject to Sections 3.5 and 3.7, interest on the Security and any Additional Amounts, on or after the respective due dates expressed in the Security (or, in case of redemption, on the redemption dates), or, subject to Section 7.9, to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 7.11. Application of Money Collected. If the Fiscal Agent collects any money pursuant to this Article, it shall pay out the money in the following order, at the date or dates fixed by the Fiscal Agent and, in case of the distribution of such money on account of principal, premium, if any, or interest, and any Additional Amounts upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: to the Fiscal Agent for amounts due under Section 9.5;

SECOND: to Holders of Securities in respect of which or for the benefit of which such money has been collected for amounts due and unpaid on such Securities for principal of, premium, if any, and interest or any Additional Amounts, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium, if any, and interest, respectively; and

THIRD: to the Company.

The Fiscal Agent may fix a record date and payment date for any payment to Holders pursuant to this Section 7.11. At least 15 days before such record date, the Fiscal Agent shall mail to each Holder, the Company and the Guarantor a notice that states the record date, the payment date and the amount to be paid.

SECTION 7.12. Restoration of Rights and Remedies. If the Fiscal Agent or any Holder of a Security has instituted any proceeding to enforce any right or remedy under this Agreement and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Fiscal Agent or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Fiscal Agent and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Fiscal Agent and the Holders of Securities shall continue as though no such proceeding had been instituted.

SECTION 7.13. Rights and Remedies Cumulative. Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.6, no right or remedy herein conferred upon or reserved to the Fiscal Agent or the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any existing right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 7.14. Waiver of Usury, Stay or Extension Laws. Each of the Company and the Guarantor covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and each of the Company and the Guarantor (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Fiscal Agent, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 7.15. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Agreement or in any suit against the Fiscal Agent for any action taken or omitted by it as Fiscal Agent, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorney's fees, against any party litigant in the suit having due regard to the merits and good faith of the claims or defenses made by the party litigant provided that this Section shall not be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company, by the Guarantor or by the Fiscal Agent.

SECTION 7.16. Judgment Currency. If, for the purpose of obtaining a judgment in any court with respect to any obligation of the Company or the Guarantor hereunder or under any Security, it shall become necessary to convert into any other currency or currency unit any amount in the currency or currency unit due hereunder or under such Security, then such conversion shall be made by the Exchange Rate Agent at the Market Exchange Rate as in effect on the date of entry of the judgment (the "Judgment Date"). If pursuant to any such judgment, conversion shall be made on a date (the "Substitute Date") other than the Judgment Date and there shall occur a change between the Market Exchange Rate as in effect on the Judgment Date and the Market Exchange Rate as in effect on the Substitute Date, each of the Company and the Guarantor agrees to pay such additional amounts (if any) as may be necessary to ensure that the amount paid is equal to the amount in such other currency or currency unit which, when converted at the Market Exchange Rate as in effect on the Judgment Date, is the amount due hereunder or under such Security. Any amount due from the Company or the Guarantor, under this Section 7.16 shall be due as a separate debt and is not to be affected by or merged into any judgment being obtained for any other sums due hereunder or in respect of any Security. In no event, however, shall the Company or the Guarantor be required to pay more in the currency or currency unit due hereunder under such Security at the Market Exchange Rate as in effect on the Judgment Date than the amount of currency or currency unit stated to be due hereunder or under such Security so that in any event the Company's and the Guarantor's obligations hereunder or under such Security will be effectively maintained as obligations in such currency or currency unit, and the Company or the Guarantor shall be entitled to withhold (or be reimbursed for, as the case may be) any excess of the amount actually realized upon any such conversion on the Substitute Date over the amount due and payable on the Judgment Date.

ARTICLE VIII

REDEMPTION

SECTION 8.1. Applicability of Article. Securities of either series which are redeemable before their maturity shall be redeemable in accordance with their terms and in accordance with this Article.

SECTION 8.2. Election to Redeem; Notice to Fiscal Agent. The election of the Company to redeem any Securities shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities of either series (including any such redemption affecting only a single Security), the Company shall, at least 30 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Fiscal Agent), notify the Fiscal Agent of such Redemption Date, of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities, the Company shall furnish the Fiscal Agent with an Officer's Certificate evidencing compliance with such restriction.

SECTION 8.3. Selection by Fiscal Agent of Securities to Be Redeemed. If less than all the Securities of either series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days or less than 30 days prior to the Redemption Date by the Fiscal Agent, from the Outstanding Securities of such series not previously called for redemption, by such method as the Fiscal Agent shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series and of a specified tenor are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days or less than 30 days prior to the Redemption Date by the Fiscal Agent, from the Outstanding Securities of such series and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Fiscal Agent shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for

partial redemption as aforesaid, the principal amounts thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Agreement, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amounts of such Securities which has been or is to be redeemed.

SECTION 8.4. Notice of Redemption. Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price and the amount of any accrued and unpaid interest payable on the Redemption Date,

(3) the CUSIP or other identifying number of such Securities to be redeemed,

(4) if less than all the Outstanding Securities of any series consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed,

(5) that on the Redemption Date the Redemption Price (together with any accrued and unpaid interest payable on the Redemption Date) will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(6) the place or places where such Securities are to be surrendered for payment of the Redemption Price, and accrued interest, if any, and

(7) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Fiscal Agent in the name and at the expense of the Company and shall be irrevocable.

SECTION 8.5. Deposit of Redemption Price. On or before any Redemption Date, the Company shall deposit with the Fiscal Agent or with a Paying Agent an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

SECTION 8.6. Securities Payable on Redemption Date. Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price applicable thereto, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant

Record Date according to their terms and the provisions of Section 3.7.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the terms of the Security.

SECTION 8.7. Securities Redeemed in Part. Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Fiscal Agent so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Fiscal Agent duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, the Guarantor shall execute the notation of the Guarantee pursuant to Article XIII or the Guarantee endorsed on, and the Fiscal Agent shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

SECTION 8.8. Optional Redemption.

The Securities shall be redeemable, in whole or in part at any time, at the option of the Company on any date (a "Redemption Date"), at a Redemption Price equal to the sum of (1) 100% of the principal amount of the Securities to be redeemed plus accrued interest thereon to the Redemption Date and (2) the Make-Whole Amount, if any, with respect to such Securities (the "Redemption Price").

From and after the date notice has been given as provided in Section 8.4, if funds for the redemption of any Securities called for redemption shall have been made available on such Redemption Date, such Securities will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of those Securities, as the case may be, will be to receive payment of the Redemption Price.

As used in this Agreement, the term "Make-Whole Amount" means, in connection with any optional redemption or

accelerated payment of any Security, the excess, if any of (1) the aggregate present value as of the date of such redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of such dollar if such redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or accelerated payment had not been made, over (2) the aggregate principal amount of the Securities being redeemed or paid.

As used in this Agreement, the term "Reinvestment Rate" means, with respect to the 7.95% Notes, 20 basis points and with respect to the 8.20% Notes, 25 basis points, plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity, as of the payment date, of the principal being redeemed or paid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

As used in this Agreement, the term "Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. government securities adjusted to constant maturities, or, if such statistical release is not published at the time of any determination under the Fiscal Agency Agreement, then such other reasonably comparable index which shall be designated by the Company.

SECTION 8.9. Optional Redemption Due to Changes in Tax Treatment. If as the result of any change in or any amendment to the laws, regulations or published tax rulings of Australia, or of any political subdivision or taxing authority thereof or therein, affecting taxation, or any change in the official administration, application or interpretation by any Australian court or tribunal, government or government authority of such laws, regulations or published tax rulings either generally or in relation to any particular Securities (or the Guarantee thereof), which change or amendment becomes effective on or after the original issue date of the Securities and Guarantee or which change in official administration, application or interpretation shall not have been available to the public prior to such issue date, the Company or the Guarantor would be required to pay any Additional Amounts pursuant to Section 5.6 of this Agreement in respect of interest on the next succeeding Interest Payment Date (assuming, in the case of the Guarantor, a payment in respect of such interest was required to be made by the Guarantor under the Guarantee thereof on such Interest Payment Date), on which the Guarantor would be unable, for reasons outside its control, to procure payment by the Company, and the obligation to pay Additional Amounts cannot be avoided by the use of reasonable measures available to the Company or the Guarantor, the Company or the Guarantor may, at either of their options, redeem all (but not less than all) the Securities of either series in respect of which such Additional Amounts would be so payable at any time, upon notice as provided in Sections 8.2 and 8.4, at a Redemption Price equal to 100 percent of the principal amount thereof plus all accrued and unpaid interest to the date fixed for redemption; provided, however, that (a) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which the Company or the Guarantor, as the case may be, would be obligated to pay such Additional Amounts were a payment in respect of the Securities or the Guarantee thereof then due, and (b) at the time any such redemption notice is given, such obligation to pay such Additional Amounts must remain in effect.

Prior to any redemption of any Securities pursuant to this Section, the Company or a Successor Person shall provide the Fiscal Agent with an Opinion of Counsel that the conditions precedent to the right of the Company or a Successor Person to redeem such Securities pursuant to this Section have occurred and a certificate signed by an

Authorized Officer stating that the obligation to pay Additional Amounts with respect of such Securities, cannot be avoided by taking measures that the Company or the Guarantor, as the case may be, believes are reasonable. Such Opinion of Counsel shall be based on the laws and application and interpretation thereof in effect on the date of such opinion or to become effective on or before the next succeeding Interest Payment Date.

ARTICLE IX

FISCAL AGENT

SECTION 9.1. Duties of Fiscal Agent. (a) The Fiscal Agent acts under this Agreement solely as agent of the Company and does not assume any obligation or relationship of agency or trust for or with the Holders of the Securities; all funds held by the Fiscal Agent for the payment of principal of or interest on, and any other amounts with respect to, the Securities need not be segregated from other funds, except as required by law, and shall be applied as set forth herein and in the Securities. The Fiscal Agent need perform only those duties that are specifically set forth in this Agreement and no others.

(b) In the absence of gross negligence or willful misconduct on its part, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Fiscal Agent and conforming to the requirements of this Agreement. However, the Fiscal Agent shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Agreement, but need not verify the accuracy of the contents thereof.

(c) The Fiscal Agent shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proven that the Fiscal Agent was grossly negligent or acted with willful misconduct in ascertaining the pertinent facts.

(d) No provision of this Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for

believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 9.2. Rights of Fiscal Agent. (a) In the absence of gross negligence or willful misconduct, the Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any document reasonably believed by it to be genuine and to have been signed or presented by the proper person. The Fiscal Agent need not investigate any fact or matter stated in the document.

(b) Before the Fiscal Agent acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Fiscal Agent shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel.

(c) The Fiscal Agent shall not be liable for any action it takes or omits to take in good faith without gross negligence or willful misconduct which (i) is taken pursuant to any Company Order addressed and delivered to the Fiscal Agent or (ii) the Fiscal Agent otherwise believes to be authorized or within its rights or powers.

(d) The Fiscal Agent may consult with counsel reasonably acceptable to the Fiscal Agent, which may be counsel to the Company and the advice of such counsel as to matters of law shall be full and complete authorization and protection in respect of any action taken, omitted or suffered by it hereunder in good faith without gross negligence or willful misconduct and in accordance with the advice or opinion of such counsel.

(e) The Fiscal Agent shall not be bound and shall have no duty to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Company under this Agreement; but the Fiscal Agent may require of the Company full information and advice as to the performance or the covenants, conditions and agreements aforesaid.

(f) The Fiscal Agent shall not be required to give any bond or surety in respect of the execution of its trusts and powers or in respect of this Agreement.

SECTION 9.3. Individual Rights of Fiscal Agent. The Fiscal Agent in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company with the same rights the Fiscal Agent would have if it were not Fiscal Agent. Any Agent may do the same with like rights.

SECTION 9.4. Fiscal Agent's Disclaimer. The Fiscal Agent makes no representation as to the validity or adequacy of this Agreement or the Securities, shall not be accountable for the Company's use of the proceeds from the sale of the Securities or the use or application of any money received by any Paying Agent other than the Fiscal Agent, and shall not be responsible for any statement in the Securities other than the Fiscal Agent's certificate of authentication.

SECTION 9.5. Compensation and Indemnity. The Company shall from time to time pay to the Fiscal Agent compensation for its services as agreed in writing by the Company from time to time. The Fiscal Agent's compensation shall not be limited by any law on compensation of a Fiscal Agent of an express trust. The Company shall reimburse the Fiscal Agent, within 45 days after receiving request therefor, for all reasonable out-of-pocket disbursements, fees and expenses incurred by the Fiscal Agent in connection with the performance of its duties under this Agreement, including the services rendered by it, under this Agreement, and, without limitation, those incurred in connection with the enforcement of any remedy hereunder or the interpretation of any provision hereunder. Such expenses may include the reasonable compensation and out-of-pocket expenses of the Fiscal Agent's agents and outside counsel.

The Company shall defend and indemnify the Fiscal Agent for, and hold the Fiscal Agent harmless against, any loss or liability incurred by it in connection with its acting as Fiscal Agent under this Agreement. The Fiscal Agent shall promptly notify the Company of any claim for which the Fiscal Agent may seek indemnity. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

Notwithstanding any of the foregoing, the Company need not reimburse any expense or indemnify against any loss or liability incurred by the Fiscal Agent in connection with the Fiscal Agent's gross negligence or willful misconduct.

SECTION 9.6. Replacement of Fiscal Agent. A resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon the successor Fiscal Agent's acceptance of appointment as provided in this Section.

The Fiscal Agent may resign at any time by giving 60 days' prior written notice thereof to the Company. Either the Company or the Holders of a majority in principal amount of the Securities may remove the Fiscal Agent at any time by giving written notice thereof to the Fiscal Agent and, in the case where removal is at the election of the Holders of a majority in principal aggregate amount of the Securities, the Company.

If the Fiscal Agent resigns or is removed or if a vacancy exists in the office of Fiscal Agent for any reason, the Company shall promptly appoint a successor Fiscal Agent.

If a successor Fiscal Agent does not take office within 60 days after the retiring Fiscal Agent resigns or is removed, the retiring Fiscal Agent or the Company will appoint a successor Fiscal Agent.

If the Fiscal Agent fails to comply with Section 9.8, the Company will promptly appoint a successor Fiscal Agent.

A successor Fiscal Agent shall deliver a written acceptance of its appointment to the retiring Fiscal Agent and to the Company. Thereupon, the retiring Fiscal Agent shall transfer all property held by it as Fiscal Agent to the successor Fiscal Agent, the resignation or removal of the retiring Fiscal Agent shall become effective, and the successor Fiscal Agent shall have all the rights, powers and duties of the Fiscal Agent under this Agreement. The successor Fiscal Agent shall mail a notice of its succession to Holders.

SECTION 9.7. Successor Fiscal Agent, Agents by Merger, Etc. If the Fiscal Agent or any Agent consolidates with, merges or converts into, or transfers all or substantially all of its fiscal agency business to, another corporation, the successor corporation without any further act shall be the successor Fiscal Agent or Agent, as the case may be.

SECTION 9.8. Eligibility. The Fiscal Agent shall have a combined capital and surplus of at least $100 million as set forth in its most recent annual report to its shareholders.

SECTION 9.9. Notice of Defaults. If a Default occurs and is continuing with respect to the Securities of either series and if it is known to a Responsible Officer of the Fiscal Agent, the Fiscal Agent shall, within 90 days after it occurs, transmit by mail to the Holders of Securities of such series notice of all Defaults known to it unless such Default shall have been cured or waived; provided, however; that except in the case of a Default in payment on the Securities of either series, the Fiscal Agent may withhold the notice if and so long as the board of directors, the executive committee or a committee of its Responsible Officers in good faith determines that withholding such notice is in the interests of Holders of Securities of that series; and provided, further, that in the case of any Default of the character specified in Section 7.1(3) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof.

ARTICLE X

AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 10.1. Without Consent of Holders. The Company, the Guarantor and the Fiscal Agent may, at any time and from time to time, amend, supplement or modify this Agreement or either series of the Securities without the consent of any Holder for the purpose of:

(1) adding to the covenants of the Company or the Guarantor for the benefit of the Holders of such series; or

(2) surrendering any right or power conferred on the Company or the Guarantor; or

(3) securing the Securities of such series; or

(4) evidencing the succession of another entity to the Company or the Guarantor and the assumption by any such successor of the covenants and obligations of

the Company or the Guarantor herein and in the Securities or the Guarantee of such series as permitted by this Agreement and the Securities; or

(5) modifying the restrictions on, and procedures for, resale and other transfers of the Securities of such series to the extent required by any change in applicable law or regulation, or the interpretation thereof, or in the practices relating to the resale or transfer of restricted securities generally; or

(6) accommodating the issuance, if any, of the Securities of such series in global or definitive form and matters related thereto which do not materially adversely affect the interest of any Holder; or

(7) curing any ambiguity or correcting or supplementing any defective provision herein or in the Securities of such series in a manner which does not materially adversely affect the interests of any Holder; or

(8) effecting any amendment which the Company, the Guarantor and the Fiscal Agent may determine is necessary or desirable and which shall not materially adversely affect the interest of any Holder.

SECTION 10.2. With Consent of Holders. The Company, the Guarantor and the Fiscal Agent may amend, supplement or modify this Agreement and either series of the Securities (i) with the written consent of the Holders of at least a majority in aggregate principal amount of such series of the Securities then outstanding or (ii) upon the adoption of a resolution, at meetings of Holders of such series of the Securities held pursuant to Article X at which, in each case, a quorum is present, by the Holders of not less than a majority in principal amount of the Securities of the applicable series. In addition, the Holders of a majority in aggregate principal amount of the Securities of either series may waive compliance by the Company or the Guarantor with any provision of this Agreement and either series of the Securities, either by written consent or by affirmative vote at meetings of Holders as described above. Without the written consent or affirmative vote of each Holder affected, no amendment, supplement, modification or waiver under this Section may:

(1) change the Stated Maturity date of the principal of, or the dates for payment of interest on, any Security;

(2) reduce the principal amount of, or interest rate on, any Security;

(3) change the place or currency of payment of principal of, or interest on, any Security;

(4) change the Guarantor's obligations under Section 5.2 hereof;

(5) impair any right to institute suit for the enforcement of any payment on or with respect to any Security;

(6) reduce the percentage in principal amount of Securities, the consent of whose Holders is required to amend, supplement or modify this Agreement or the Securities or to make, take or give any request, demand, authorization, direction, notice, consent, waiver (including waiver of future compliance or past failure to perform) or other action provided thereby to be made, taken or given;

(7) reduce the percentage of aggregate principal amount of outstanding Securities that constitutes the quorum at any meeting of Holders at which a resolution is adopted;

(8) modify the rank of the Securities or any ranking provision of any Security in a manner adverse to the Holder; or

(9) change the redemption price payable upon any optional redemption of any Security in a manner adverse to the Holders.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof. The Company may establish, by delivery of an Officers' Certificate to the Fiscal Agent, a record date for determining Holders of record entitled to give any consent or waiver.

After an amendment or supplement under this Section becomes effective, the Fiscal Agent shall mail to Holders a notice briefly describing the amendment or supplement. Any failure of the Fiscal Agent to mail each such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any supplemental agreement.

SECTION 10.3. Revocation and Effect of Consents. Until an amendment, supplement or waiver becomes effective, a written consent to it by a Holder of a Security is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the written consent as to such Security or portion of a Security if a Responsible Officer of the Fiscal Agent receives the notice of revocation before the date the amendment, supplement or waiver becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder. Notwithstanding the foregoing, if a record date has been established for the purpose of determining Holders entitled to consent, such written notice of revocation must be signed by the Holder of record as of the record date or his duly appointed proxy.

SECTION 10.4. Notation on or Exchange of Securities. The Fiscal Agent may place an appropriate notation relating to an amendment, supplement or waiver on any Security thereafter authenticated. The Company in exchange for all Securities may issue, and the Fiscal Agent shall authenticate, new Securities of the same series that reflect the amendment, supplement or waiver.

SECTION 10.5. Fiscal Agent to Sign Amendments, Etc. In executing, or accepting the additional obligations created by any supplemental agreement permitted by this Article or the modifications thereby of the obligations created by this Agreement, the Fiscal Agent shall be entitled to receive, and (subject to the rights and limitations of Article X) shall be fully protected in relying upon, an Opinion of Counsel and an Officers' Certificate stating that the execution of such supplemental agreement is authorized or permitted by this Agreement.

The Fiscal Agent shall sign any amendment or supplement authorized pursuant to this Article, provided that the Fiscal Agent receives an Opinion of Counsel stating that the amendment or supplement does not adversely affect the rights of the Fiscal Agent. If the amendment or supplement does adversely affect the Fiscal Agent's rights, the Fiscal Agent may, but need not, sign it.

ARTICLE XI

MEETINGS OF HOLDERS

SECTION 11.1. Purposes for Which Meetings May Be Called. A meeting of Holders of either series of the Securities may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Agreement to be made, given or taken by Holders of the Securities.

SECTION 11.2. Call, Notice and Place of Meetings. The Company may at any time, and at the written request and direction of the Holders of at least 25% of the aggregate principal amount of the Securities of either series at any time, the Fiscal Agent shall on behalf of such Holders, transmit a notice of a meeting of Holders of the Securities of the specified series for any purpose specified in Section 11.1 hereof. Each such meeting shall be held at such time and at such place in New York, New York or Des Moines, Iowa as the Company or the Holders calling such meeting shall determine. Notice of any such meeting of Holders of the Securities of the applicable series, setting forth the time and the place of such meeting and, in general terms, the action proposed to be taken at such meeting, shall be given by the Company to the Fiscal Agent and the Holders of the Securities of the applicable series, or by the Fiscal Agent (on behalf and at the direction of the Holders calling the meeting) to the Company and the Holders of the applicable series of the Securities, not less than 30 nor more than 60 days prior to the date fixed for the meeting. If the Fiscal Agent shall not have given notice of any meeting as directed by the requisite Holders within 21 days after receiving such direction, such Holders may call a meeting of the Holders of the applicable series of the Securities generally by giving written notice thereof to the Company,

the Fiscal Agent and the Holders of the applicable series of the Securities in the manner described above.

SECTION 11.3. Persons Entitled to Vote at Meetings. To be entitled to vote at any meeting of Holders of Securities of a particular series, a Person shall be (i) a Holder of the Securities of the applicable series or (ii) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more of the Securities of the applicable series. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Fiscal Agent and its counsel, and any representatives of the Company and the Guarantor, and their counsel.

SECTION 11.4. Quorum. At any meeting of the Holders of Securities of a particular series, a majority in aggregate principal amount of the applicable series of the Securities shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of the applicable series of the Securities, be dissolved. In any other case the meeting may be adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 11.2, except that such notice need be given only once not less than five days prior to the date on which the meeting is scheduled to be reconvened.

Any action taken at any meeting of Holders of the Securities of a particular series duly held in accordance with this Section, if taken by the Holders of an aggregate principal amount of the applicable series of the Securities required for such action by this Agreement, shall be binding on all the Holders of the applicable series of the Securities whether or not present or represented at the meeting.

SECTION 11.5. Action by Written Consent. Any action required or permitted to be taken by the Holders of either series of the Securities may be effected by consent in writing by such Holders of the Securities.

SECTION 11.6. Determination of Voting Rights; Conduct and Adjournment of Meetings. (a) Notwithstanding any other provisions of this Agreement, the Company may make such reasonable regulations as it may deem advisable for any meeting of Holders of the Securities in regard to proof of the holding of the Securities and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without other proof.

(b) The Company shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Holders of the Securities, in which case the Holders of the Securities calling the meeting shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Securities represented at the meeting.

(c) At any meeting each Holder of a Security of the applicable series or proxy therefor shall be entitled to one vote for each $1,000 principal amount of the Securities of the applicable series held or represented by such Holder; provided that no vote shall be cast or counted at any meeting in respect of any Security ruled by the chairman of the meeting to be not outstanding or otherwise not entitled to vote. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of the applicable series or proxy.

(d) Any meeting of Holders of the Securities duly called pursuant to Section 11.2 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Securities of the applicable series represented at the meeting, and such meeting may be held as so adjourned without further notice.

SECTION 11.7. Counting Votes and Recording Action of Meetings. The vote upon any resolution submitted to any meeting of Holders of the Securities shall be by written ballots on which shall be subscribed the signatures of the Holders of the Securities or their representatives by proxy and the principal amounts and serial numbers, if applicable, of the Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Holders of the Securities shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken at such meeting and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 11.2 and, if applicable, Section 11.4 hereof. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to each of the Company and the Fiscal Agent, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be presumptive evidence of the matters therein stated.

ARTICLE XII

GUARANTEE

SECTION 12.1. Guarantee.

The Guarantor hereby unconditionally guarantees to each Holder of a Security authenticated and delivered by the Fiscal Agent, and to the Fiscal Agent on behalf of such Holder, the due and punctual payment of the principal of (and premium, if any) and interest on such Security when and as the same shall become due and payable, whether at the Stated Maturity or by acceleration, call for redemption, purchase or otherwise, in accordance with the terms of such Security and of this Fiscal Agency Agreement. In case of the failure of the Company punctually to make any such payment, the Guarantor hereby agrees to cause such payment to be made punctually when and as the same shall become due

and payable, whether at the Stated Maturity or by acceleration, call for redemption, purchase or otherwise, and as if such payment were made by the Company.

All payments pursuant to the Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or taxing authority thereof or therein, unless such taxes, duties, assessments or governmental charges are required by Australia or any political subdivision or taxing authority thereof or therein to be withheld or deducted. In that event, the Guarantor will pay such additional amounts of, or in respect of, payments pursuant to the Guarantee ("Additional Amounts") as will result (after deduction of such taxes, duties, assessments or governmental charges and any additional taxes, duties, assessments or governmental charges payable in respect of such) in the payment to the Holder of each Security of the amounts which would have been payable in respect of the Guarantee had no such withholding or deduction been required, except that no Additional Amounts shall be so payable for or on account of:

(1) any tax, duty, assessment or other governmental charge which would not have been imposed but for the fact that such Holder: (A) was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, Australia or otherwise had some connection with Australia other than the mere ownership of, or receipt of payment under such Security or Guarantee; (B) presented such Security or Guarantee for payment in Australia, unless such Security or Guarantee could not have been presented for payment elsewhere; or (C) presented such Security or Guarantee, as the case may be, more than thirty (30) days after the date on which the payment in respect of such Security first became due and payable or provided for, whichever is later, except to the extent that the Holder would have been entitled to such Additional Amounts if it had presented such Security or Guarantee for payment on any day within such period of thirty (30) days;

(2) any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment

or other governmental charge or any withholding or deduction on account of such taxes;

(3) any tax, assessment or other governmental charge which is payable otherwise than by withholding or deduction from payments pursuant to the Guarantee;

(4) any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure to comply by the Holder or the beneficial owner of such Security with a request of the Company or the Guarantor addressed to such Holder or beneficial owner, as the case may be, (A) to provide information concerning the nationality, residence or identity of such Holder or such beneficial owner or (B) to make any declaration or other similar claim or satisfy any information or reporting requirement, which, in the case of (A) or (B), is required or imposed by a statute, treaty, regulation or administrative practice of Australia or any political subdivision or taxing authority thereof or therein as a precondition to exemption from all or part of such withholding, deduction, tax, assessment or other governmental charge;

(5) any withholding, deduction, tax, assessment or other governmental charge which is imposed or withheld by reason of such Holder being an associate of the Company or the Guarantor for the purposes of Section 128(F) of the Income Tax Assessment Act 1936 of Australia;

(6) a determination by the Commissioner of Taxation that Australian interest withholding tax is payable in respect of the amount in the circumstances where the Holder or such entity, or a person on behalf of the Holder or such entity, is party to or participated in a scheme to avoid Australian interest withholding tax, being a scheme which the Company neither was party to nor participated in; or

(7) any combination of items (l), (2), (3), (4), (5) and (6);

nor shall Additional Amounts be paid with respect to any payments pursuant to the Guarantee to any such Holder who is a fiduciary or partnership or other than the sole beneficial

owner of such payment to the extent such payment would be required by the laws of Australia or any political subdivision or taxing authority thereof or therein to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner, any of whom would not have been entitled to such Additional Amounts had it been the Holder of the Security.

Whenever in this Agreement there is mentioned, in any context, any payments pursuant to the Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this Section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section, and any express mention of the payment of Additional Amounts in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

At least 10 days prior to each date on which any payment pursuant to the Guarantee is due and payable, if the Guarantor will be obligated to pay Additional Amounts with respect to such payment, the Guarantor will deliver to the Fiscal Agent and the Paying Agent an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Fiscal Agent and such Paying Agent to pay such Additional Amounts to the Holders on the payment date; provided, however, that if 10 days prior to each date on which any such payment is due and payable the amount of such payment has not yet been determined, the Guarantor shall notify the Fiscal Agent of such amount promptly after such amount has been determined.

The Guarantor hereby agrees that its obligations hereunder shall be unconditional, irrespective of (i) the validity, regularity or enforceability of any Security or this Fiscal Agency Agreement, (ii) the absence of any action to enforce the same, (iii) any creation, exchange, release or non-perfection of any Lien on any collateral for, or any release or amendment or waiver of any term of any other Guarantee of, or any consent to departure from any requirement of any other Guarantee, of all or any of the Securities, (iv) the election by the Fiscal Agent or any of the Holders in any proceeding under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") of the

application of Section 1111(b)(2) of the Bankruptcy Code, (v) any borrowing or grant of a security interest by the Company, as debtor-in-possession, under Section 364 of the Bankruptcy Code, (vi) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the claims of the Fiscal Agent or any of the Holders for payment of any of the Securities, (vii) any waiver or consent by the Holder of any Security or by the Fiscal Agent with respect to any provisions thereof or of this Fiscal Agency Agreement, (viii) the obtaining of any judgment against the Company or any action to enforce the same or (ix) any other circumstances which might otherwise constitute a legal or equitable discharge or defense of a guarantor. For purposes of clauses (iv), (v) and (vi) of the foregoing sentence, references to sections of the Bankruptcy Code shall be deemed to include any equivalent or like provisions of Australian or Iowa law which might be applicable to the Company or the Guarantor, as the case may be. The Guarantor hereby waives the benefits of diligence, presentment, demand of payment, any requirement that the Fiscal Agent or any of the Holders protect, secure, perfect or insure any security interest in or other Lien on any property subject thereto or exhaust any right or take any action against the Company or any other Person or any collateral, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest or notice with respect to any Security or the indebtedness evidenced thereby and all demands whatsoever, and covenants, that this Guarantee will not be discharged in respect of any Security except by complete performance of the obligations contained in such Security and in this Guarantee. The Guarantor hereby agrees that, in the event of a default in payment of principal (or premium, if any) or interest on any Security, whether at its Stated Maturity or by acceleration, call for redemption, purchase or otherwise, legal proceedings may be instituted by the Fiscal Agent on behalf of, or by, the Holder of such Security, subject to the terms and conditions set forth in this Fiscal Agency Agreement, directly against the Guarantor to enforce its Guarantee without first proceeding against the Company. The Guarantor agrees that if, after the occurrence and during the continuance of an Event of Default, the Fiscal Agent or any of the Holders are prevented by applicable law from exercising their respective rights to accelerate the maturity of the Securities, to collect interest on the Securities or to enforce or exercise any other right or remedy with respect to the Securities, or

the Fiscal Agent or the Holders are prevented from taking any action to realize on any collateral, the Guarantor agrees to pay to the Fiscal Agent for the account of the Holders, upon demand therefor, the amount that would otherwise have been due and payable had such rights and remedies been permitted to be exercised by the Fiscal Agent or any of the Holders.

No provision of any Guarantee or Security or of the Fiscal Agency Agreement shall alter or impair the Guarantee of the Guarantor, which is absolute and unconditional, of the due and punctual payment of the principal (and premium, if any) and interest on the Security upon which such Guarantee is endorsed.

The Guarantor shall be subrogated to all rights of the Holders of the Securities upon which the Guarantee is endorsed against the Company in respect of any amounts paid by the Guarantor on account of such Security pursuant to the provisions of the Guarantee or this Fiscal Agency Agreement; provided, however, that the Guarantor shall not, without the consent of the Holders of all the Outstanding Securities, be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until the principal of (and premium, if any) and interest on all Securities issued hereunder shall have been paid in full.

Each Guarantee shall remain in full force and effect and continue to be effective should any petition be filed by or against the Company for liquidation or reorganization, should the Company become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of the assets of the Company and shall, to the fullest extent permitted by law, continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Securities is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee on the Securities, whether as a "voidable preference," "fraudulent transfer" or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Securities shall, to the fullest extent permitted by law, be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

No stockholder, officer, director, employer or incorporator, past, present or future, of the Guarantor, as such, shall have any personal liability under any Guarantee by reason of his, her or its status as such stockholder, officer, director, employer or incorporator.

SECTION 12.2. Execution and Delivery of Guarantee.

The Guarantee to be endorsed on the Securities shall include the terms of the Guarantee set forth in Section 12.1 and any other terms that may be set forth in the form established pursuant to Section 2.8. The Guarantor hereby agrees to execute the Guarantee, in a form established pursuant to Section 2.8, to be endorsed on each Security authenticated and delivered by the Fiscal Agent.

The Guarantee shall be executed on behalf of the Guarantor by any two of the Guarantor's Chairman of the Board, Vice Chairman of the Board, President or Vice Presidents, attested by its Secretary, Assistant Secretary or any of its Vice Presidents. The signature of any or all of these officers on the Guarantee may be manual or facsimile and may be pursuant to a duly executed power of attorney.

A Guarantee bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Guarantor shall bind the Guarantor, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of the Security on which such Guarantee is endorsed or did not hold such offices at the date of such Guarantee.

The delivery of any Security by the Fiscal Agent, after the authentication thereof hereunder, shall constitute due delivery of the Guarantee endorsed thereon on behalf of the Guarantor. The Guarantor hereby agrees that its Guarantee set forth in Section 12.1 shall remain in full force and effect notwithstanding any failure to endorse a Guarantee on any Security.

ARTICLE XIII

ASSUMPTION BY GUARANTOR

SECTION 13.1. Mandatory Assumption by Guarantor upon Failure to Consummate Acquisition. The Guarantor has agreed that if the sale and purchase of the Sale Shares pursuant to the Acquisition Agreement does not occur before August 25, 2000, the Guarantor shall assume all of the obligations of the Company under this Agreement and the Securities in accordance with the Assumption Agreement a copy of which is attached as Annex E.

SECTION 13.2. Optional Assumption by Guarantor. (a) With the consent of the Company, the Guarantor may assume the obligations of the Company under this Agreement and the Securities without the consent of the Holders, provided that: (i) the Guarantor shall expressly assume the due and punctual payment of the principal of, premium (if any) and interest on the Securities and the due and punctual performance of all the Company's covenants and conditions under this Agreement and the Securities, (ii) immediately after giving effect to such assumption by the Guarantor of the obligations of the Company under this Agreement or the Securities, no Default shall exist in the performance of any of the covenants and conditions under this Agreement or the Securities, and (iii) the Guarantor shall have delivered and Officer's Certificate and an Opinion of Counsel, each stating that such assumption complies with this Agreement and that all conditions precedent herein provided for relating to such transaction have been complied with.

(b) Upon assumption by the Guarantor as stated in the above paragraph, the Guarantor shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the Issuer of the Securities and party to this Agreement, and the Company shall be relieved of any further obligation under the Securities and this Agreement.

ARTICLE XIV

DEFEASANCE AND COVENANT DEFEASANCE

SECTION 14.1. Option of Company and Guarantor to Effect Defeasance or Covenant Defeasance. The Company or the Guarantor may elect, at their option at any time, to have Section 14.2 or Section 14.3 applied to any Securities or any series of Securities, as the case may be, upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution.

SECTION 14.2. Defeasance and Discharge. Upon the exercise by either the Company or the Guarantor of their option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company and the Guarantor shall be deemed to have been discharged from their respective obligations with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 14.4 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company and the Guarantor shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all their other obligations under such Securities and this Fiscal Agency Agreement insofar as such Securities are concerned (and the Fiscal Agent, at the expense of the Company and the Guarantor, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 14.4 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the obligations of the Company and the Guarantor with respect to such Securities under Sections 2.9(b), 3.4, 3.5 and 3.6, and with respect to the payment of Additional Amounts, if any, on such Securities as contemplated by Section 5.6, (3) the rights, powers, trusts, duties and immunities of the Fiscal Agent hereunder and (4) this Article. Subject to compliance with this Article, the Company or the Guarantor may exercise their option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 14.3 applied to such Securities.

SECTION 14.3. Covenant Defeasance. Upon exercise by either the Company or the Guarantor of their option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company and the Guarantor shall be released from their obligations under Section 6.1(4), Sections 5.7 and 5.8, and any covenants provided pursuant to Section 10.1(l) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 7.1(3) (with respect to any of Section 6.1(4), Section 5.7 and 5.8, and any such covenants provided pursuant to Section 10.1(l)) shall be deemed not to be or result in an Event of Default, in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 14.4 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company and the Guarantor may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 7.1(3)), whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Fiscal Agency Agreement and such Securities shall be unaffected thereby.

SECTION 14.4. Conditions to Defeasance or Covenant Defeasance. The following shall be the conditions to application of either Section 14.2 or Section 14.3 to the then Outstanding Securities:

(a) The Company shall irrevocably have deposited or caused to be deposited with the Fiscal Agent (or another fiscal agent satisfying the requirements of Section 9.8 who shall agree to comply with the provisions of this Article XIV applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, sufficient, in the opinion of an

internationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Fiscal Agent, to pay and discharge, and which shall be applied by the Fiscal Agent (or other qualifying fiscal agent) to pay and discharge, the principal of and each instalment of interest, including Additional Amounts, if any, on the Securities on the Stated Maturity of such principal or instalment of interest in accordance with the terms of this Fiscal Agent and of such Securities. For this purpose, "U.S. Government Obligations" means securities that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (y) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

(b) In the case of an election under Section 14.2, the Company shall have delivered to the Fiscal Agent (i) an Opinion of U.S. Counsel stating that (x) the Company has received from, or there has been published by, the United States Internal Revenue Service a ruling, or (y) since the date of this Fiscal Agency Agreement there has been a change in the applicable United States Federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Outstanding Securities will not recognize income, gain or loss for United States Federal income tax or other

tax purposes as a result of such deposit, defeasance and discharge and will be subject to United States Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, (ii) an Opinion of Australian Counsel stating that the Company has received a ruling from a relevant Australian taxing authority to the effect that holders of the Securities will not recognize income, gain or loss for Australian income tax purposes as a result of such deposit, defeasance and discharge and will be subject to Australian income tax on the same amounts, in the same manner and at the times as would have been the case if such deposit, defeasance and discharge had not occurred, and (iii) an Opinion of U.S. Counsel, in the event the defeasance trust is governed by U.S. law, or Australian Counsel, in the event the defeasance trust is governed by Australian law, to the effect that, under the laws in the United States or Australia, as the case may be, in effect at the time of such deposit, payments made from the defeasance trust would not require the payment of Additional Amounts if the provisions of Section 5.6 above were applicable to such payments.

(c) In the case of an election under Section 14.3, the Company shall have delivered to the Fiscal Agent (i) an Opinion of U.S. Counsel (which may be based upon an Internal Revenue Service ruling) to the effect that the Holders of the Outstanding Securities will not recognize income, gain or loss for United States Federal income tax or other tax purposes as a result of such deposit and covenant defeasance and will be subject to United States Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance had not occurred, (ii) an Opinion of Australian Counsel (which may be based on a ruling from the relevant Australian taxing authority) to the effect that the holders of the Securities will not recognize income, gain or loss for Australian income tax purposes as a result of such deposit and defeasance and will be subject to Australian income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance had not occurred, and (iii) an Opinion of U.S. and Australian Counsel to the effect

that, under the respective laws in the U.S. and Australia in effect at the time of such deposit, payments made from the defeasance trust would not require the payment of Additional Amounts if the provisions of Section 5.6 above were applicable to such payments.

(d) The Company shall have delivered to the Fiscal Agent an Officer's Certificate to the effect that the Securities of the applicable series if then listed on any securities exchange, will not be delisted as a result of such deposit.

(e) No Event of Default or event which with notice or lapse of time or both would become an Event of Default shall have occurred and be continuing on the date of such deposit or, insofar as subsections 7.1(5) and (6) are concerned, at any time during the period ending on the 121st day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period).

(f) Such defeasance or covenant defeasance shall not result in a material breach of, or constitute a material default under, any other agreement or instrument evidencing Debt of the Company or a Restricted Subsidiary to which the Company is a party or by which it is bound.

(g) The Company shall have delivered to the Fiscal Agent an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for relating to either the defeasance under Section 14.2 or the covenant defeasance under Section 14.3 (as the case may be) have been complied with.

(h) The Company shall have delivered to the Fiscal Agent an Opinion of Counsel to the effect that such defeasance or covenant defeasance shall not result in the trust arising from such deposit to be subject to regulation as an investment company under the United States Investment Company Act of 1940, as amended, or such trust shall be qualified under such act.

SECTION 14.5. Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions. All money and U.S. Government Obligations (including the proceeds thereof) deposited with the Fiscal Agent or other qualifying fiscal agent (solely for purposes of this Section and Section 14.6, the Fiscal Agent and any such other fiscal agent are referred to collectively as the "Fiscal Agent") pursuant to Section 14.4 in respect of any Securities shall be held in trust and applied by the Fiscal Agent, in accordance with the provisions of such Securities and this Fiscal Agency Agreement, to the payment, either directly or through any such Paying Agent (including the Company or the Guarantor acting as its own Paying Agent) as the Fiscal Agent may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Company or the Guarantor shall pay and indemnify the Fiscal Agent against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 14.4 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Fiscal Agent shall deliver or pay to the Company or the Guarantor from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 14.4 with respect to any Securities which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Fiscal Agent, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

SECTION 14.6. Reinstatement. If the Fiscal Agent or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Fiscal Agency Agreement and such Securities from which

the Company and the Guarantor have been discharged or released pursuant to Section 14.2 or 14.3 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Fiscal Agent or Paying Agent is permitted to apply all money held in trust pursuant to Section 14.5 with respect to such Securities in accordance with this Article; provided, however, that if the Company or the Guarantor makes any payment of principal of or any premium or interest on any such Security following such reinstatement of its obligations, the Company and the Guarantor shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

ARTICLE XV

MISCELLANEOUS

SECTION 15.1. Notices. Any notice or communication to the Company, the Guarantor or the Fiscal Agent by any other party to this Agreement shall be duly given if sent by telecopier or in writing and delivered in person or mailed by first class mail, postage prepaid, addressed as follows:

If to the Company:

Principal Financial Group (Australia) Holdings
Pty Limited
Chifley Tower
2 Chifley Square
Sydney, New South Wales 2000 Australia

Attention: Secretary
Telephone: 61-2-9259-2112
Facsimile: 61-2-9253-9767

If to the Guarantor:

Principal Financial Services, Inc.
711 High Street
Des Moines, Iowa 50392-2300

Attention: General Counsel
Telephone: 515-247-5872
Facsimile: 515-248-8617

If to the Fiscal Agent:

U.S. Bank Trust National Association
100 Wall Street
Suite 1600
New York, New York 10005

Attention: Corporate Trust Services
Telephone: 212-361-2458
Facsimile: 212-809-5459

The Company, the Guarantor or the Fiscal Agent by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication to a Holder shall be mailed by first-class mail, postage prepaid, to its address as shown on the register kept by the Registrar. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If the Company mails a notice or communication to Holders, it shall mail a copy to the Fiscal Agent and each Agent at the same time.

If a notice or communication is mailed in the manner provided above within the time prescribed it is duly given, whether or not the addressee receives it.

SECTION 15.2. Governing Law. This Agreement and the Securities shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the principles of conflicts of law thereof.

SECTION 15.3. No Recourse against Others. No director, officer, employee, member or policyholder, as such, of the Company, the Guarantor or Principal Life shall

have any liability for any obligation of the Company or the Guarantor under the Securities or the Agreement or for any claim based on, in respect of or by reason of such obligations or their creation. Each Holder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities.

SECTION 15.4. Duplicate Originals. The parties may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Agreement.

SECTION 15.5. Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 15.6. Successor and Assiqns. All covenants and agreements in this Agreement by each of the Company and the Guarantor shall bind its successor and assigns, whether so expressed or not.

SECTION 15.7. Separability. In case any provision of this Agreement or the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 15.8. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open either in New York City, in Des Moines, Iowa or the city where the principal corporate office of the Fiscal Agent is located. If a payment date is a Legal Holiday at a place of payment, payment may be made at such place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

PRINCIPAL FINANCIAL GROUP
(AUSTRALIA) HOLDINGS PTY LIMITED

By: /s/ DENNIS P. FRANCIS

Name: Dennis P. Francis
Title: Director

By: /s/ DAVID FALLOW

Name: David Fallow
Title: Director

PRINCIPAL FINANCIAL SERVICES, INC.
as Guarantor

By: /s/ THOMAS J. GRAF

Name: Thomas J. Graf
Title: Senior Vice President

By: /s/ MICHAEL H. GERSIE

Name: Michael H. Gersie
Title: Senior Vice President

U.S. BANK TRUST NATIONAL ASSOCIATION
as Fiscal Agent

By:

Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

PRINCIPAL FINANCIAL GROUP
(AUSTRALIA) HOLDINGS PTY LIMITED

By:

Name:
Title:

By:

Name:
Title:

PRINCIPAL FINANCIAL SERVICES, INC.
as Guarantor

By:

Name:
Title:

By:

Name:
Title:

U.S. BANK TRUST NATIONAL ASSOCIATION
as Fiscal Agent

By: /s/ Marlene J. Fahey

Name: Marlene J. Fahey
Title: Vice President

Annex A-l

FORM OF TRANSFER CERTIFICATE --
RESTRICTED GLOBAL SECURITY TO
TEMPORARY REGULATION S GLOBAL SECURITY

REGULATION S GLOBAL SECURITY CERTIFICATE
(for transfers pursuant to Section 3.5(b)(iii)
of the Fiscal Agency Agreement)

U.S. Bank Trust National Association, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Association, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to U.S.$_____ aggregate principal amount of [7.95% Notes][8.20% Notes] which are evidenced by the Restricted Global Security (CUSIP No._____) and held with the U.S. Depositary in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such beneficial interest in the [7.95% Notes][8.20% Notes] to a Person who will take delivery thereof in the form of an equal aggregate principal amount of [7.95% Notes][8.20% Notes] evidenced by the Temporary Regulation S Global Security (CUSIP No._____), which amount, immediately after such transfer, is to be held with the U.S. Depositary through Euroclear or Cedelbank or both.

In connection with such request and in respect of such [7.95% Notes][8.20% Notes], the Transferor does hereby

certify that such transfer has been effected pursuant to and in accordance with Rule 903 or Rule 904 under the United States Securities Act of 1933, as amended (the "Securities Act"), and accordingly the Transferor does hereby further certify that:

(i) the offer of the [7.95% Notes][8.20% Notes] was not made to a person in the United States;

(ii) either:

at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or

the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(iii) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable;

(iv) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; and

(v) upon completion of the transaction, the beneficial interest being transferred as described above was held with the U.S. Depositary through Euroclear or Cedelbank or both.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any

interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as initial purchasers of the [7.95% Notes][8.20% Notes]. Terms used in this certificate and not otherwise defined in the Fiscal Agency Agreement have the meanings set forth in Regulation S under the Securities Act.

Dated: [Insert Name of Transferor]

By:

Name:
Title:

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

ANNEX A-2

FORM OF TRANSFER CERTIFICATE --
RESTRICTED GLOBAL SECURITY TO
REGULATION S GLOBAL SECURITY

REGULATION S GLOBAL SECURITY CERTIFICATE
(for transfers pursuant to Section 3.5(b)(iv)
of the Fiscal Agency Agreement)

U.S. Bank Trust National Associates, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Associates, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to U.S. $_____ aggregate principal amount of [7.95% Notes][8.20% Notes] which are evidenced by the Restricted Global Security (CUSIP No. _____) and held with the U.S. Depositary in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such beneficial interest in the [7.95% Notes][8.20% Notes] to a Person who will take delivery thereof in the form of an equal aggregate principal amount of [7.95% Notes][8.20% Notes] evidenced by the Regulation S Global Security (CUSIP No. _____).

In connection with such request and in respect of such Notes, the Transferor does hereby certify that:

(i) with respect to transfers made in reliance on Regulation S under the Securities Act of 1933, as amended (the "Securities Act");

1. the offer of the [7.95% Notes][8.20% Notes] was not made to a person in the United States;

2. either:

   a at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or

   b. the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

3. no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable; and

4. the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; or

(ii) with respect to transfers made in reliance on Rule 144 under the Securities Act, the [7.95% Notes][8.20% Notes] are being transferred in a transaction permitted by Rule 144 under the Securities Act.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney

Inc. as initial purchasers of the [7.95% Notes][8.20% Notes]. Terms used in this certificate and not otherwise defined in the Fiscal Agency Agreement have the meanings set forth in Regulation S under the Securities Act.

Dated: [Insert Name of Transferor]

By:

Name:
Title:

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

ANNEX B

FORM OF TRANSFER CERTIFICATE --
TEMPORARY REGULATION S GLOBAL SECURITY OR
REGULATION S GLOBAL SECURITY TO RESTRICTED
GLOBAL SECURITY

RESTRICTED GLOBAL SECURITY CERTIFICATE
(for transfers pursuant to Section 3.5(b)(v)
of the Fiscal Agency Agreement)

U.S. Bank Trust National Associates, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Associates, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to U.S.$ _____ aggregate principal amount of [7.95% Notes][8.20% Notes] which are evidenced by the Temporary Regulation S Global Security or the Regulation S Global Security (CUSIP No. _____) and held with the U.S. Depositary through Euroclear or Cedelbank or both in the name of [insert name of transferor] (the "Transferor") during the Restricted Period. The Transferor has requested a transfer of such beneficial interest in the Notes to a Person that will take delivery thereof in the form of an equal principal amount of [7.95% Notes][8.20% Notes] evidenced by the Restricted Global Security (CUSIP No. _____).

In connection with such request and in respect of such [7.95% Notes][8.20% Notes], the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with Rule 144A under the United States

Securities Act of 1933, as amended, and accordingly the Transferor does hereby further certify that the [7.95% Notes][8.20% Notes] are being transferred to a person that the Transferor reasonably believes is purchasing the [7.95% Notes][8.20% Notes] for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A and the [7.95% Notes][8.20% Notes] have been transferred in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as initial purchasers of the [7.95% Notes][8.20% Notes].

Dated: [Insert Name of Transferor]

By:

Name:
Title:

(If the registered owner is a corporation, partnership or fiduciary, the title of the Person signing on behalf of such registered owner must be stated.)

ANNEX C-1

FORM OF CERTIFICATION TO BE GIVEN BY HOLDERS OF
BENEFICIAL INTEREST IN A TEMPORARY REGULATION S
GLOBAL SECURITY TO EUROCLEAR OR Cedelbank

OWNER SECURITIES CERTIFICATION

[Morgan Guaranty Trust Company
OF NEW YORK, BRUSSELS OFFICE,
as Operator of the Euroclear
Clearance System] [or] [Cedelbank BANK,
SOCIETE ANONYME]

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Association, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to U.S.$ _____ aggregate principal amount of [7.95% Notes][8.20% Notes] which are evidenced by the Temporary Regulation S Global Security (CUSIP No. _____) and held with the U.S. Depositary through Euroclear or Cedelbank or both in the name of [insert name of holder] (the "Holder").

In respect of such [7.95% Notes][8.20% Notes], the Holder does hereby certify that as of the date hereof, the above-captioned [7.95% Notes][8.20% Notes] are beneficially owned by non-U.S. Persons and are not held for purposes of resale directly or indirectly to a U.S. Person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia. As used herein, U.S. Person has the meaning assigned to it in Rule 902 under the Securities Act of 1933, as amended.

We undertake to advise you immediately by tested telex on or prior to the date on which you intend to submit your certification relating to the [7.95% Notes][8.20% Notes] held by you for our account in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

We understand that this certification is required in connection with certain securities laws in the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification or a copy thereof to any interested party in such proceedings. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities, Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as the initial purchasers of the [7.95% Notes][8.20% Notes].

Date: *
----------, ------

- ----------
[Name of Person Making Certification]

- ----------
*/ To be dated no earlier than 15 days prior to the transfer or exchange date to which the certification relates.

ANNEX C-2

FORM OF CERTIFICATION TO BE GIVEN
BY THE EUROCLEAR OPERATOR OR Cedelbank BANK,
SOCIETE ANONYME

DEPOSITARY SECURITIES CERTIFICATION

U.S. Bank Trust National Association, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank National Association, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organizations appearing in our records as persons being entitled to a portion of the principal amount set forth below (our "Member Organizations") substantially to the effect set forth in the Fiscal Agency Agreement, as of the date hereof, $_____ aggregate principal amount of the above-captioned [7.95% Notes][8.20% Notes] are beneficially owned by non-U.S. Persons and are not held for purposes of resale directly or indirectly to a U.S. Person or to a person within the United States or its possessions.

As used herein, "United States" means the United States of America, its territories and possessions, any state of the United States, and the District of Columbia. As used herein, U.S. Person has the meaning assigned to it in Rule 902 under the Securities Act of 1933, as amended.

We further certify (i) that we are not making available herewith for exchange any portion of the Temporary Regulation S Global Security excepted in such certifications and (ii) that as of the date hereof we have not received any notification from any of our Member Organizations to the effect that the statements made by such Member Organizations with respect to any portion of the part submitted herewith for exchange are no longer true and cannot be relied upon as of the date hereof.

We understand that this certification is required in connection with certain securities laws of the United States. If administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification or a copy thereof to any interested party in such proceedings. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as the initial purchasers of the [7.95% Notes][8.20% Notes].

Dated:

By:

[Morgan Guaranty Trust Company
OF NEW YORK, BRUSSELS OFFICE,
as Operator of the Euroclear Clearance System] [or]
[Cedelbank, SOCIETE ANONYME]

ANNEX C-3

FORM OF CERTIFICATION TO BE GIVEN BY
TRANSFEREE OF BENEFICIAL INTEREST IN A
TEMPORARY REGULATION S GLOBAL SECURITY
AFTER THE RESTRICTED PERIOD

TRANSFEREE SECURITIES CERTIFICATION

[Morgan Guaranty Trust Company
OF NEW YORK, BRUSSELS OFFICE,
as Operator of the Euroclear
Clearance system] [or] [Cedelbank BANK,
SOCIETE ANONYME]

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Associates, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

For purposes of acquiring a beneficial interest in the Temporary Regulation S Global Security, the undersigned certifies that it is not a U.S. Person as defined by Regulation S under the Securities Act of 1933, as amended.

We undertake to advise you promptly by tested telex on or prior to the date on which you intend to submit your certification relating to the [7.95% Notes][8.20% Notes] held by you in which we intend to acquire a beneficial interest in accordance with your operating procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies as of such date.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit

and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as initial purchasers of the [7.95% Notes][8.20% Notes].

Dated:

By:

As, or as agent for,
the beneficial acquiror
of the [7.95% Notes][8.20% Notes]
to which this certificate relates.

ANNEX D-1

FORM OF TRANSFER CERTIFICATE --
NON-GLOBAL RESTRICTED SECURITY TO
RESTRICTED GLOBAL SECURITY

RESTRICTED GLOBAL SECURITY CERTIFICATE
(for transfers pursuant to Section 3.5(b) (vi)
of the Fiscal Agency Agreement)

U.S. Bank Trust National Association, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95 Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Association, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to $ _____ aggregate principal amount of Notes held in definitive form (CUSIP No. _____) by [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such [7.95% Notes][8.20% Notes] to a Person that will take delivery in the form of an equal principal amount of Notes evidenced by the Restricted Global Security (CUSIP No. _____).

In connection with such request and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended, and accordingly the Transferor does hereby further certify that the [7.95% Notes][8.20% Notes] are being transferred to a person that the Transferor reasonably believes is purchasing the [7.95% Notes][8.20% Notes] for its own account, or for one or more accounts with respect to

which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A and the [7.95% Notes][8.20% Notes] have been transferred in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as the initial purchasers of the [7.95% Notes][8.20% Notes].

Dated: [Insert Name of Transferor]

By:

Name:
Title:

ANNEX D-2

FORM OF CERTIFICATE -- NON-GLOBAL
RESTRICTED SECURITY TO REGULATION S GLOBAL
SECURITY OR TEMPORARY REGULATION S
GLOBAL SECURITY

REGULATION S GLOBAL SECURITY CERTIFICATE
(for transfers pursuant to Section 3.5(b)(vi)
of the Fiscal Agency Agreement)

U.S. Bank Trust National Associates, as Fiscal Agent
100 Wall Street
Suite 1600
New York, New York 10005

Re: Principal Financial Group (Australia)
Holdings Pty Limited
[7.95% Notes due August 15, 2004 (the "7.95% Notes")]
[8.20% Notes due August 15, 2009 (the "8.20% Notes")]

Reference is hereby made to the Fiscal Agency Agreement, dated as of August 25, 1999, among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer, Principal Financial Services, Inc., as Guarantor, and U.S. Bank Trust National Association, as Fiscal Agent. Capitalized terms used but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

This certificate relates to $ _____ aggregate principal amount of [7.95% Notes][8.20% Notes] held in definitive form (CUSIP No. _____) by [insert name of transferor] (the "Transferor"). The Transferor has requested an exchange or transfer of such [7.95% Notes][8.20% Notes] to a Person that will take delivery in the form of an equal principal amount of [7.95% Notes][8.20% Notes] evidenced by the Regulation S Global Security or the Temporary Regulation S Global Security (CUSIP No. _____).

In connection with such request and in respect of such [7.95% Notes][8.20% Notes], the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with (a) Rule 903 or Rule 904 under the Securities Act of 1933, as amended (the "Act"), or

(b) Rule 144 under the Act, and accordingly the Transferor does hereby further certify that:

(i) if the transfer has been effected pursuant to Rule 903 or Rule 904:

1. the offer of the [7.95% Notes][8.20% Notes] was not made to a person in the United States;

2. either:

a. at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or

b. the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

3. directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable;

4. the transaction is not part of a plan or scheme to evade the registration requirements of the Act; and

5. if such transfer is to occur during the Restricted Period, upon completion of the transaction, the beneficial interest being transferred as described above was held with the Depositary through [Euroclear] [Cedelbank]; or

(ii) if the transfer has been effected pursuant to Rule 144:

1. more than two years has elapsed since the date of the closing of the initial placement of the [7.95% Notes][8.20% Notes] pursuant to the Purchase Agreement, dated August 18, 1999, between the Company and the representatives of the several purchasers named therein; and

2. the Notes have been transferred in a transaction permitted by Rule 144 and made in accordance with any applicable securities laws of any state of the United States.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding. This certificate and the statements contained herein are made for your benefit and the benefit of the Company and the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as initial purchasers of the [7.95% Notes][8.20% Notes].

Dated: [Insert Name of Transferor]

By:

Name:
Title:

ANNEX E

FORM OF PRINCIPAL FINANCIAL SERVICES, INC.
IRREVOCABLE ASSUMPTION OF OBLIGATIONS

Reference is made to the Fiscal Agency Agreement, dated as of August 25, 1999 (as amended, supplemented or otherwise modified from time to time, the "Fiscal Agency Agreement"), among Principal Financial Group (Australia) Holdings Pty Limited, as Issuer (the "Issuer"), Principal Financial Services, Inc., as Guarantor, (the "Guarantor") and U.S. Bank Trust National Association, as Fiscal Agent, (the "Fiscal Agent") and the Purchase Agreement, dated August 18, 1999 between the Issuer, the Guarantor and Goldman, Sachs & Co., J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as Purchasers (the "Purchasers") relating to the issuance and sale by the Issuer of $200,000,000 aggregate principal amount of its 7.95% Notes due August 15, 2004 (the "7.95% Notes") and $465,000,000 aggregate principal amount of its 8.20% Notes due August 15, 2009 (the "8.20% Notes" and together with the 7.95% Notes, the "Notes") guaranteed as to payment of principal and interest by the Guarantor. The Fiscal Agency Agreement, the Purchase Agreement and the Notes are herein collectively referred to as the "Documents". Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed thereto in the Documents.

For the benefit of each other and all holders of the Notes from time to time, the Issuer and the Guarantor agree as follows:

1. The Issuer hereby irrevocably transfers and assigns to the Guarantor and the Guarantor hereby irrevocably accepts and assumes from the Issuer, as of the date hereof, all of the Issuer's rights and obligations as Issuer under the Documents.

2. The Issuer makes no representation or warranty and assumes no responsibility with respect to any statement, warranties or representations made in or in connection with any, or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Documents or any other instrument or document furnished pursuant thereto, other than that the Issuer has not created any adverse claim upon the interest being assigned by them

hereunder and that such interest is free and clear of any such adverse claim.

3. The Guarantor (a) represents and warrants that it is legally authorized to enter into this Assumption and that this Assumption constitutes a valid and enforceable agreement and (b) agrees that it will be bound by the provisions of the Documents and will perform in accordance with their respective terms all the obligations which by the terms of the Documents are required to be performed by it as if it were the Issuer thereunder.

4. From and after the date hereof, (a) the Guarantor, to the extent provided in this Assumption, shall have the rights and obligations of the Issuer under the Documents and shall be bound by the provisions thereof, (b) the Issuer shall, to the extent provided in this Assumption, relinquish its rights and be released from its obligations under the Documents and (c) references in the Documents to the Issuer shall become references to the Guarantor.

5. THIS ASSUMPTION SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Assumption to be executed as of _____.

PRINCIPAL FINANCIAL GROUP (AUSTRALIA)
HOLDINGS PTY LIMITED

By:

Name:
Title:

PRINCIPAL FINANCIAL SERVICES, INC.

By:

Name:
Title:

ACCEPTED:

U.S. BANK TRUST NATIONAL ASSOCIATION
as Fiscal Agent

By:

Name:
Title:

EXHIBIT 21.1

PRINCIPAL FINANCIAL GROUP MEMBER COMPANIES

30-May-01

ADMAR CORPORATION
Incorporated: California
ANDUEZA & PRINCIPAL CREDITOS HIPOTECARIOS S.A.
Incorporated: Chile
BENEFIT FIDUCIARY CORPORATION
Incorporated: Rhode Island
BOSTON INSURANCE TRUST, INC.
Incorporated: Massachusetts
BRASILPREV PREVIDENCIA PRIVADA S.A.
Incorporated: Brazil
BT (QUEENSLAND) PTY LTD
Incorporated: Australia
BT AUSTRALIA (HOLDINGS) PTY LTD
Incorporated: Australia
BT AUSTRALIA CORPORATE SERVICES PTY LTD
Incorporated: Australia
BT AUSTRALIA PTY LTD
Incorporated: Australia
BT FINANCE & INVESTMENTS PTY LTD
Incorporated: Australia
BT FINANCE PTY LTD
Incorporated: Australia
BT FINANCIAL GROUP (NZ) LTD
Incorporated: New Zealand
BT FINANCIAL GROUP PTY LTD
Incorporated: Australia
BT FUNDS MANAGEMENT (INTERNATIONAL) LTD
Incorporated: Australia
BT FUNDS MANAGEMENT (NZ) LTD
Incorporated: New Zealand
BT FUNDS MANAGEMENT LTD
Incorporated: Australia
BT HOTEL LTD
Incorporated: Australia
BT INVESTMENTS (AUSTRALIA) LTD
Incorporated: Delaware
BT LIFE LTD
Incorporated: Australia
BT NOMINEES PTY LTD
Incorporated: Australia
BT PORTFOLIO SERVICES (AUSTRALIA) LTD
Incorporated: Australia
BT PORTFOLIO SERVICES (NZ) LTD
Incorporated: New Zealand
BT REGISTRIES (WA) PTY LTD
Incorporated: Australia
BT REGISTRIES PTY LTD
Incorporated: Australia
BT SECURITIES LTD
Incorporated: Australia
BT TACTICAL ASSET MANAGEMENT PTY LTD
Incorporated: Australia
CHIFLEY SERVICES PTY LTD
Incorporated: Australia

DELAWARE CHARTER GUARANTEE & TRUST COMPANY
Incorporated: Delaware
DENTAL-NET, INC.
Incorporated: Arizona
EMPLOYERS DENTAL SERVICES, INC.
Incorporated: Arizona
EQUITY FC, LTD.
Incorporated: Iowa
EXECUTIVE BENEFIT SERVICES, INC.
Incorporated: North Carolina
HEALTHRISK RESOURCE GROUP, INC.
Incorporated: Iowa
IDBI PRINCIPAL ASSET MANAGEMENT COMPANY
Incorporated: India
IDBI-PRINCIPAL TRUSTEE COMPANY LIMITED
Incorporated: India
ING-PRINCIPAL PENSIONS CO., LTD
Incorporated: Japan
INVISTA CAPITAL MANAGEMENT, LLC
Incorporated: Delaware
ONISTON PTY LTD
Incorporated: Australia
PATRICIAN ASSOCIATES, INC.
Incorporated: California
PETULA ASSOCIATES, LTD.
Incorporated: Iowa
PFG DO BRASIL LTDA
Incorporated: Brazil
PPI EMPLOYEE BENEFITS CORPORATION
Incorporated: Connecticut
PRINCIPAL AFORE, S.A. DE C.V.
Incorporated: Mexico
PRINCIPAL ASSET MANAGEMENT COMPANY (ASIA) LTD.
Incorporated: Hong Kong
PRINCIPAL ASSET MARKETS, INC.
Incorporated: Iowa
PRINCIPAL BANK
Incorporated: Federal
PRINCIPAL CAPITAL FUTURES TRADING ADVISOR, LLC
Incorporated: Delaware
PRINCIPAL CAPITAL INCOME INVESTORS, LLC
Incorporated: Delaware
PRINCIPAL CAPITAL MANAGEMENT (ASIA) LTD
Incorporated: Asia
PRINCIPAL CAPITAL MANAGEMENT (EUROPE) LTD
Incorporated: United Kingdom
PRINCIPAL CAPITAL MANAGEMENT (IRELAND) LTD
Incorporated: Ireland
PRINCIPAL CAPITAL MANAGEMENT (SINGAPORE) LTD
Incorporated: Singapore
PRINCIPAL CAPITAL MANAGEMENT, LLC
Incorporated: Delaware
PRINCIPAL CAPITAL REAL ESTATE INVESTORS, LLC
Incorporated: Delaware
PRINCIPAL CAPITAL TRUST
Incorporated: Delaware
PRINCIPAL COMMERCIAL ACCEPTANCE, LLC
Incorporated: Delaware

PRINCIPAL COMMERCIAL FUNDING, LLC
Incorporated: Delaware
PRINCIPAL COMPANIA DE SEGUROS DE VIDA CHILE S.A.
Incorporated: Chile
PRINCIPAL CONSULTING (INDIA) PRIVATE LIMITED
Incorporated: India
PRINCIPAL DELAWARE NAME HOLDING COMPANY, INC.
Incorporated: Delaware
PRINCIPAL DEVELOPMENT ASSOCIATES, INC.
Incorporated: California
PRINCIPAL DEVELOPMENT INVESTORS, L.L.C.
Incorporated: Delaware
PRINCIPAL ENTERPRISE CAPITAL, LLC
Incorporated: Delaware
PRINCIPAL FC, LTD.
Incorporated: Iowa
PRINCIPAL FINANCIAL ADVISORS, INC.
Incorporated: Iowa
PRINCIPAL FINANCIAL GROUP (AUSTRALIA) HOLDINGS PTY LTD
Incorporated: Australia
PRINCIPAL FINANCIAL GROUP (MAURITIUS) LTD.
Incorporated: Mauritius
PRINCIPAL FINANCIAL GROUP INVESTMENTS (AUSTRALIA) PTY LTD
Incorporated: Australia
PRINCIPAL FINANCIAL GROUP, INC. (DELAWARE DOMICILE)
Incorporated: Delaware
PRINCIPAL FINANCIAL GROUP, INC. (IOWA DOMICILE)
Incorporated: Iowa
PRINCIPAL FINANCIAL SERVICES (AUSTRALIA), INC.
Incorporated: Iowa
PRINCIPAL FINANCIAL SERVICES (NZ), INC.
Incorporated: Iowa
PRINCIPAL FINANCIAL SERVICES, INC.
Incorporated: Iowa
PRINCIPAL GENERATION PLANT, LLC
Incorporated: Delaware
PRINCIPAL HEALTH CARE, INC.
Incorporated: Iowa
PRINCIPAL HOLDING COMPANY
Incorporated: Iowa
PRINCIPAL HOTELS AUSTRALIA PTY LTD
Incorporated: Australia
PRINCIPAL HOTELS HOLDINGS PTY LTD
Incorporated: Australia
PRINCIPAL INSURANCE COMPANY (HONG KONG) LIMITED
Incorporated: Hong Kong
PRINCIPAL INTERNATIONAL (ASIA) LIMITED
Incorporated: Hong Kong
PRINCIPAL INTERNATIONAL ARGENTINA, S.A.
Incorporated: Argentina
PRINCIPAL INTERNATIONAL DE CHILE S.A.
Incorporated: Chile
PRINCIPAL INTERNATIONAL HOLDING COMPANY, LLC
Incorporated: Delaware
PRINCIPAL INTERNATIONAL, INC.
Incorporated: Iowa
PRINCIPAL INVESTORS CORPORATION
Incorporated: New Jersey

PRINCIPAL IOWA NEWCO, INC.
Incorporated: Iowa
PRINCIPAL LIFE COMPANIA DE SEGUROS, S.A.
Incorporated: Argentina
PRINCIPAL LIFE INSURANCE COMPANY
Incorporated: Iowa
PRINCIPAL MANAGEMENT CORPORATION
Incorporated: Iowa
PRINCIPAL MEXICO COMPANIA DE SEGUROS, S.A. DE C.V.
Incorporated: Mexico
PRINCIPAL MORTGAGE REINSURANCE COMPANY
Incorporated: Vermont
PRINCIPAL MUTUAL HOLDING COMPANY
Incorporated: Iowa
PRINCIPAL NET LEASE INVESTORS, L.L.C.
Incorporated: Delaware
PRINCIPAL PENSIONES, S.A. DE C.V.
Incorporated: Mexico
PRINCIPAL PORTFOLIO SERVICES, INC.
Incorporated: Iowa
PRINCIPAL PRODUCT NETWORK, INC.
Incorporated: Delaware
PRINCIPAL RESIDENTIAL MORTGAGE FUNDING, LLC
Incorporated: Delaware
PRINCIPAL RESIDENTIAL MORTGAGE, INC.
Incorporated: Iowa
PRINCIPAL RETIRO COMPANIA DE SEGUROS DE RETIRO, S.A.
Incorporated: Argentina
PRINCIPAL SPECTRUM ASSOCIATES, INC.
Incorporated: California
PRINCIPAL TRUST COMPANY (ASIA) LIMITED
Incorporated: Asia
PRINCIPAL WHOLESALE MORTGAGE, INC.
Incorporated: Iowa
PRINCOR FINANCIAL SERVICES CORPORATION
Incorporated: Iowa
PROFESSIONAL PENSIONS, INC.
Incorporated: Connecticut
PT ASURANSI JIWA PRINCIPAL INDONESIA
Incorporated: Indonesia
PT JASA PRINCIPAL INDONESIA
Incorporated: Indonesia
PT PRINCIPAL ASSET MANAGEMENT INDONESIA
Incorporated: Indonesia
QV1 PTY LTD
Incorporated: Australia
SIEFORE PRINCIPAL, S.A. DE C.V.
Incorporated: Mexico
THE ADMAR GROUP, INC.
Incorporated: Florida
ZAO PRINCIPAL INTERNATIONAL
Incorporated: Russia

Exhibit 23.1

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated February 2, 2001, except for Note 16 to the consolidated financial statements as to which the date is April 30, 2001, in the Registration Statement (Form S-1) and related Prospectus of Principal Financial Group, Inc. dated June 8, 2001.

/s/ Ernst & Young LLP

Des Moines, Iowa
June 6, 2001

EXHIBIT 23.3

[LETTERHEAD OF MILLIMAN USA]

June 8, 2001

Re: Principal Mutual Holding Company

CONSENT OF MILLIMAN USA

We, Milliman USA, formerly named Milliman & Robertson, Inc., consent to the use in the Registration Statement on Form S-1, as Annex A to the Prospectus, of the opinion letter of Mr. McCarthy dated March 31, 2001. We also consent to the references made to Mr. McCarthy, to such opinion letter and to Milliman USA or Milliman & Robertson, Inc. under the following captions in the Prospectus: "The Demutualization - Payment of Consideration to Eligible Policyholders" and "Experts", copies of which have been provided to us for our review.

Milliman USA

By: /s/ DANIEL J. MCCARTHY

Daniel J. McCarthy, F.S.A.
June 8, 2001