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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

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

1-16725
(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**42-1520346**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392
(Address of principal executive offices)

(515) 247-5111
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒ Accelerated Filer o Non-accelerated Filer o

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

The total number of shares of the registrant's Common Stock, $0.01 par value, outstanding as of April 26, 2006 was 276,975,346.

PRINCIPAL FINANCIAL GROUP, INC.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.
Consolidated Statements of Financial Position

	March 31, 2006 (Unaudited)	December 31, 2005
	(in millions)	
Assets		
Fixed maturities, available-for-sale	$ **42,516.4**	$ 42,117.2
Fixed maturities, trading	**165.8**	113.2
Equity securities, available-for-sale	**722.4**	724.4
Equity securities, trading	**95.6**	90.3
Mortgage loans	**11,326.7**	11,484.3
Real estate	**1,009.8**	999.4
Policy loans	**838.0**	827.7
Other investments	**1,199.8**	1,113.5
Total investments	**57,874.5**	57,470.0
Cash and cash equivalents	**1,608.2**	1,641.3
Accrued investment income	**700.1**	682.7
Premiums due and other receivables	**673.6**	592.7
Deferred policy acquisition costs	**2,308.1**	2,174.1
Property and equipment	**420.6**	419.8
Goodwill	**299.2**	282.3
Other intangibles	**209.3**	202.6
Separate account assets	**66,343.4**	62,070.0
Other assets	**1,537.5**	1,499.9
Total assets	$ **131,974.5**	$ 127,035.4
Liabilities		
Contractholder funds	$ **34,552.3**	$ 33,612.1
Future policy benefits and claims	**16,894.3**	16,825.5
Other policyholder funds	**653.3**	657.1
Short-term debt	**396.4**	476.4
Long-term debt	**893.6**	898.8
Income taxes currently payable	**0.5**	—
Deferred income taxes	**711.6**	974.8
Separate account liabilities	**66,343.4**	62,070.0
Other liabilities	**3,930.4**	3,713.5
Total liabilities	$ **124,375.8**	$ 119,228.2

Principal Financial Group, Inc.

Consolidated Statements of Financial Position (continued)

	March 31, 2006 (Unaudited)	December 31, 2005
	(in millions)	
Stockholders' equity		
Series A preferred stock, par value $.01 per share with liquidation preference of $100 per share - 3.0 million shares authorized, issued and outstanding in 2006 and 2005	$ —	$ —
Series B preferred stock, par value $.01 per share with liquidation preference of $25 per share - 10.0 million shares authorized, issued and outstanding in 2006 and 2005	**0.1**	0.1
Common stock, par value $.01 per share - 2,500.0 million shares authorized, 381.7 million and 381.3 million shares issued, and 277.6 million and 280.6 million shares outstanding in 2006 and 2005, respectively	**3.8**	3.8
Additional paid-in capital	**8,024.8**	8,000.0
Retained earnings	**2,294.3**	2,008.6
Accumulated other comprehensive income	**639.3**	994.8
Treasury stock, at cost (104.1 million and 100.7 million shares in 2006 and 2005, respectively)	**(3,363.6)**	(3,200.1)
Total stockholders' equity	**7,598.7**	7,807.2
Total liabilities and stockholders' equity	**$ 131,974.5**	$ 127,035.4

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31, 2006	2005
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	**$ 1,041.8**	$ 934.1
Fees and other revenues	**448.8**	417.2
Net investment income	**852.2**	793.9
Net realized/unrealized capital gains (losses)	**48.9**	(1.5)
Total revenues	**2,391.7**	2,143.7
Expenses		
Benefits, claims, and settlement expenses	**1,341.8**	1,234.3
Dividends to policyholders	**71.9**	72.9
Operating expenses	**604.4**	556.9
Total expenses	**2,018.1**	1,864.1
Income from continuing operations before income taxes	**373.6**	279.6
Income taxes	**79.7**	74.7
Income from continuing operations, net of related income taxes	**293.9**	204.9
Income from discontinued operations, net of related income taxes	**—**	0.6
Net income	**293.9**	205.5
Preferred stock dividends	**8.2**	—
Net income available to common stockholders	**$ 285.7**	$ 205.5
Earnings per common share		
Basic earnings per common share:		
Income from continuing operations, net of related income taxes	**$ 1.02**	$ 0.68
Income from discontinued operations, net of related income taxes	**—**	0.01
Net income	**$ 1.02**	$ 0.69
Diluted earnings per common share:		
Income from continuing operations, net of related income taxes	**$ 1.01**	$ 0.68
Income from discontinued operations, net of related income taxes	**—**	¾
Net income	**$ 1.01**	$ 0.68

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total stockholders' equity
				(in millions)				

Balances at January 1, 2005	$ —	$ —	$ 3.8	$ 7,269.4	$ 1,289.5	$ 1,313.3	$ (2,331.7)	$ 7,544.3
Common stock issued	—	—	—	13.7	—	—	—	13.7
Stock-based compensation, and additional related tax benefits	—	—	—	11.1	—	—	—	11.1
Treasury stock acquired, common	—	—	—	¾	—	—	(164.6)	(164.6)
Comprehensive loss:	—	—						
Net income	—	—	—	—	205.5	—	—	205.5
Net unrealized losses	—	—	—	—	—	(406.7)	—	(406.7)
Provision for deferred income taxes	—	—	—	—	—	147.8	—	147.8
Foreign currency translation adjustment, net of related income taxes	—	—	—	—	—	(8.0)	—	(8.0)
Comprehensive loss								(61.4)
Balances at March 31, 2005	$ —	$ —	$ 3.8	$ 7,294.2	$ 1,495.0	$ 1,046.4	$ (2,496.3)	$ 7,343.1
Balances at January 1, 2006	**$ —**	**$ 0.1**	**$ 3.8**	**$ 8,000.0**	**$ 2,008.6**	**$ 994.8**	**$ (3,200.1)**	**$ 7,807.2**
Common stock issued	**—**	**—**	**—**	**11.7**	**—**	**—**	**—**	**11.7**
Capital transactions of equity method investee, net of related income taxes	**—**	**—**	**—**	**0.4**	**—**	**—**	**—**	**0.4**
Stock-based compensation, and additional related tax benefits	**—**	**—**	**—**	**12.7**	**—**	**—**	**—**	**12.7**
Treasury stock acquired, common	**—**	**—**	**—**	**—**	**—**	**—**	**(163.5)**	**(163.5)**
Dividends to preferred stockholders	**—**	**—**	**—**	**—**	**(8.2)**	**—**	**—**	**(8.2)**
Comprehensive loss:								
Net income	**—**	**—**	**—**	**—**	**293.9**	**—**	**—**	**293.9**
Net unrealized losses	**—**	**—**	**—**	**—**	**—**	**(533.9)**	**—**	**(533.9)**
Provision for deferred income taxes	**—**	**—**	**—**	**—**	**—**	**181.1**	**—**	**181.1**
Foreign currency translation adjustment, net of related income taxes	**—**	**—**	**—**	**—**	**—**	**(2.7)**	**—**	**(2.7)**
Comprehensive loss								**(61.6)**
Balances at March 31, 2006	**$ —**	**$ 0.1**	**$ 3.8**	**$ 8,024.8**	**$ 2,294.3**	**$ 639.3**	**$ (3,363.6)**	**$ 7,598.7**

Principal Financial Group, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For three months ended March 31,	
	2006	**2005 (As Restated - See Note 1)**
	(in millions)	
Operating activities		
Net income	**$ 293.9**	$ 205.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Income from discontinued operations, net of related income taxes	**—**	(0.6)
Amortization of deferred policy acquisition costs	**71.8**	62.2
Additions to deferred policy acquisition costs	**(120.5)**	(127.7)
Accrued investment income	**(17.4)**	2.5
Net cash flows from trading securities	**(55.9)**	—
Premiums due and other receivables	**(15.8)**	6.3
Contractholder and policyholder liabilities and dividends	**282.1**	389.7
Current and deferred income taxes	**36.3**	(417.6)
Net realized/unrealized capital (gains) losses	**(48.9)**	1.5
Depreciation and amortization expense	**23.4**	25.3
Mortgage loans held for sale, acquired or originated	**(209.6)**	(476.5)
Mortgage loans held for sale, sold or repaid, net of gain	**339.7**	416.2
Real estate acquired through operating activities	**(4.9)**	(15.5)
Real estate sold through operating activities	**0.9**	0.7
Stock-based compensation	**12.3**	11.2
Other	**(162.0)**	(161.4)
Net adjustments	**131.5**	(283.7)
Net cash provided by (used in) operating activities	**425.4**	(78.2)
Investing activities		
Available-for-sale securities:		
Purchases	**(2,390.3)**	(1,979.8)
Sales	**373.3**	468.5
Maturities	**947.3**	1,296.5
Mortgage loans acquired or originated	**(593.5)**	(539.5)
Mortgage loans sold or repaid	**609.0**	478.4
Real estate acquired	**(13.1)**	(9.8)
Real estate sold	**0.9**	63.8
Net purchases of property and equipment	**(12.5)**	(21.6)
Purchases of interest in subsidiaries, net of cash acquired	**(5.5)**	(52.9)
Net change in other investments	**96.8**	(3.0)
Net cash used in investing activities	**$ (987.6)**	$ (299.4)

Principal Financial Group, Inc.
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	For the three months ended, March 31,	
	2006	2005 (As Restated - See Note 1)
	(in millions)	
Financing activities		
Issuance of common stock	**$ 11.7**	$ 13.7
Acquisition and sales of treasury stock, net	**(163.5)**	(164.6)
Proceeds from financing element derivatives	**40.6**	42.8
Payments for financing element derivatives	**(38.3)**	(31.1)
Excess tax benefits from share-based payment arrangements	**0.6**	—
Dividends to preferred stockholders	**(8.2)**	—
Issuance of long-term debt	**0.2**	7.7
Principal repayments of long-term debt	**(0.6)**	(0.8)
Net proceeds (repayments) of short-term borrowings	**(78.8)**	477.1
Investment contract deposits	**2,760.6**	2,036.8
Investment contract withdrawals	**(2,012.5)**	(1,905.3)
Net increase (decrease) in banking operation deposits	**17.3**	(4.4)
Net cash provided by financing activities	**529.1**	471.9
Discontinued operations		
Net cash provided by operating activities	**—**	1.7
Net cash provided by discontinued operations	**—**	1.7
Net increase (decrease) in cash and cash equivalents	**(33.1)**	96.0
Cash and cash equivalents at beginning of period	**1,641.3**	452.2
Cash and cash equivalents at end of period	**$ 1,608.2**	$ 548.5
Cash and cash equivalents of discontinued operations included above		
At beginning of period	**$ —**	$ 1.9
At end of period	**$ —**	$ 3.6

See accompanying notes

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2006
(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (“PFG”), its majority-owned subsidiaries and its consolidated variable interest entities (“VIE”), have been prepared in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2005, included in our Form 10-K for the year ended December 31, 2005, filed with the United States Securities and Exchange Commission (“SEC”). The accompanying consolidated statement of financial position at December 31, 2005, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Restatement

For the year ended December 31, 2005, we separately disclosed the operating, investing and financing portions of the cash flows attributable to our discontinued operations, which in the prior interim periods were excluded from the statement of cash flows. We have restated the statements of cash flows for the interim periods of 2005 to include and separately disclose the operating, investing, and financing portions of the cash flows attributable to our discontinued operations.

Recent Accounting Pronouncements

On March 17, 2006, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 156, *Accounting for Servicing of Financial Assets* (“SFAS 156”), which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (“SFAS 140”). This Statement (1) requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specified situations, (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, (3) for subsequent measurement of each class of separately recognized servicing assets and liabilities, an entity can elect either the amortization or fair value measurement method, (4) permits a one-time reclassification of available-for-sale (“AFS”) securities to trading securities by an entity with recognized servicing rights, without calling into question the treatment of other AFS securities, provided the AFS securities are identified in some manner as offsetting the entity’s exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value, and (5) requires separate presentation of servicing assets and liabilities measured at fair value in the statement of financial position and also requires additional disclosures. The initial measurement requirements of this statement should be applied prospectively to all transactions entered into after the fiscal year beginning after September 15, 2006. The election related to the subsequent measurement of servicing assets and liabilities is also effective the first fiscal year beginning after September 15, 2006. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2006
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* (“SFAS 155”), which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”) and SFAS 140. SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity’s fiscal year that begins after September 15, 2006. At adoption, the fair value election may also be applied to hybrid financial instruments that have been bifurcated under SFAS 133 prior to adoption of this Statement. Any changes resulting from the adoption of this Statement should be recognized as a cumulative effect adjustment to beginning retained earnings. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123R”). SFAS 123R requires all share-based payments to employees to be recognized at fair value in the financial statements. SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”), and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure - an Amendment of FASB Statement No. 123* and amends SFAS No. 95, *Statement of Cash Flows*. On April 14, 2005, the SEC approved a new rule delaying the effective date of SFAS 123R to annual periods that begin after June 15, 2005. Accordingly, we adopted SFAS 123R effective January 1, 2006 using the modified-prospective method.

It is appropriate to recognize compensation cost either immediately for stock awards granted to retirement eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if retirement eligibility is expected to occur during the nominal vesting period. Our approach was to follow the widespread practice of recognizing compensation cost over the explicit service period (up to the date of actual retirement). For any awards that are granted after our adoption of SFAS 123R on January 1, 2006, we recognize compensation cost through the period that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. If we had applied the nonsubstantive vesting provisions of SFAS 123R to awards granted prior to January 1, 2006, our consolidated financial statements would not have been materially impacted.

SFAS 123R requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. While the company cannot estimate what those amounts will be in the future, (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized for the three months ended March 31, 2006, for such excess tax deductions, was $0.6 million.

Under the modified-prospective method, any excess income tax deduction realized for awards accounted for under SFAS 123R (regardless of the type of award or the jurisdiction in which the tax benefit is generated) is eligible to absorb write-offs of deferred income tax assets for any awards accounted for under SFAS 123R. SFAS 123R does not require separate pools of excess income tax benefits for separate types of awards, rather the excess income tax benefits of employee and nonemployee awards may be combined in a single pool of excess tax benefits. Our policy is to pool the employee and nonemployee awards together in this manner. Deferred income tax asset write-offs resulting from deficient deductions on employee awards may be offset against previous excess income tax benefits arising from nonemployee awards, and vice versa.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2006
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

This Statement did not have a material impact on our consolidated financial statements as we began expensing all stock options using a fair-value based method effective for the year beginning January 1, 2002. In addition, any stock options granted prior to January 1, 2002 were fully vested at the time of adoption of SFAS 123R. We use the Black-Scholes formula to estimate the value of stock options granted to employees. We applied the prospective method of transition as prescribed by SFAS 123 when we elected to begin expensing stock-based compensation in 2002. The cumulative effect of the change in accounting principle as a result of adopting this Statement is immaterial. Therefore, the pre-tax cumulative effect of the change in accounting principle is reflected in operating expenses.

Separate Accounts

As of March 31, 2006 and December 31, 2005, the separate accounts include a separate account valued at $713.1 million and $726.6 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. The separate account shares are recorded at fair value and are reported as separate account assets and separate account liabilities in the

consolidated statements of financial position. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Federal Income Taxes

The effective income tax rate on income from continuing operations for the three months ended March 31, 2006 is lower than the prevailing corporate federal income tax rate primarily due to income tax deductions allowed for corporate dividends received, a favorable court ruling on a contested Internal Revenue Service issue for 1991 and later years, and interest exclusion from taxable income. The effective income tax rate on income from continuing operations for the three months ended March 31, 2005 is lower than the prevailing corporate federal income tax rate primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income.

3. Employee and Agent Benefits

Effective January 1, 2006, we made changes to our retirement program, including the Principal Select Saving Plan ("401(k)"), the Principal Pension Plan ("Pension Plan") and the corresponding nonqualified plans. The qualified and nonqualified pension plans' changes include a reduction to the traditional and cash balance formulas, a change in the early retirement factors, and the removal of the cost of living adjustments for traditional benefits earned after January 1, 2006. The qualified and nonqualified 401(k) plans' company match increased from 50% of a 6% deferral to 75% of an 8% deferral. The Pension Plan changes reduced the Pension Plan expense in 2006, while the 401(k) changes increased the 401(k) expense.

3. Employee and Agent Benefits (continued)

Components of net periodic benefit cost (income):

	Pension benefits		Other postretirement benefits	
	For the three months ended March 31,		For the three months ended March 31,	
	2006	2005	2006	2005
	(in millions)			
Service cost	**$ 11.7**	$ 12.4	**$ 2.4**	$ 2.5
Interest cost	**20.4**	19.4	**4.0**	4.2
Expected return on plan assets	**(26.3)**	(24.1)	**(8.1)**	(7.3)
Amortization of prior service cost (benefit)	**(2.2)**	0.4	**(0.6)**	(0.6)
Recognized net actuarial loss	**5.1**	4.1	**—**	0.1
Net periodic benefit cost	**$ 8.7**	$ 12.2	**$ (2.3)**	$ (1.1)

Contributions

We anticipate contributing $0.4 million in 2006 to fund our other postretirement benefit plans. We contributed $0.1 million during the three months ended March 31, 2006.

Our funding policy for the qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act ("ERISA") and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. The minimum annual contribution for 2006 will be zero so we will not be required to fund the qualified pension plan during 2006. However, it is possible that we may fund the qualified and nonqualified plans in 2006 in the range of $10.0 million to $50.0 million. During the three months ended March 31, 2006, no contributions were made to the plans.

4. Contingencies, Guarantees and Indemnifications

Litigation

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services, life, health and disability insurance. Some of the lawsuits are class actions, or purport to be, and some include claims for punitive damages. In addition, 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.

Several lawsuits have been filed against other insurance companies and insurance brokers alleging improper conduct relating to the payment and non-disclosure of contingent compensation and bid-rigging activity. Several of these suits were filed as purported class actions. Several state attorneys general and insurance regulators have initiated industry-wide inquiries or other actions relating to compensation arrangements between insurance brokers and insurance companies and other industry issues. We received a subpoena on March 3, 2005 from the Office of the Attorney General of the State of New York seeking information on compensation agreements associated with the sale of retirement products. On January 13, 2006, we received a subpoena and a set of interrogatories from the Office of the Attorney General of the State of Connecticut seeking information and documents relating to payment of contingent compensation to brokers and actions in restraint of trade in the sale of group annuities. We are cooperating with these inquiries. We have received requests from regulators and other governmental authorities relating to industry issues and may receive such requests in the future.

On December 23, 2004, a lawsuit was filed in Iowa state court against us and our wholly owned subsidiaries, Principal Life Insurance Company, Inc. ("Principal Life") and Principal Financial Services, Inc., on behalf of a proposed class comprised of the settlement class in the Principal Life sales practices class action settlement, which was approved in April 2001 by the United States District Court for the Southern District of Iowa. This more recent lawsuit claims that the treatment of the settlement costs of that sales practices litigation in relation to the allocation of demutualization consideration to Principal Life policyholders was inappropriate. Demutualization allocation was done pursuant to the terms of a plan of demutualization approved by the policyholders in July 2001 and Insurance Commissioner of the State of Iowa in August 2001. The lawsuit further claims that such allocation was not accurately described to policyholders during the demutualization process and is a breach of the sales practices settlement. On January 27, 2005, we filed a notice to remove the action from state court to the United States District Court for the Southern District of Iowa. On July 22, 2005, the plaintiff's motion to remand the action to state court was denied, and our motion to dismiss the lawsuit was granted. On September 21, 2005, the plaintiff's motion to alter or amend the judgment was denied. On October 4, 2005, the plaintiff filed a notice of appeal to the United State Court of Appeals for the Eighth Circuit.

A lawsuit was filed against us, Principal Life, and Principal Financial Services, Inc. in the United States District Court for the Southern District of Iowa on October 31, 2005, but the plaintiff dismissed the case without prejudice on March 17, 2006. The claims and allegations in the lawsuit were substantially the same as those in the December 23, 2004 lawsuit, but the proposed class was limited to those members of the settlement class in the Principal Life sales practices class action settlement who did not own annuities and who received demutualization consideration in the form of cash under the plan of demutualization.

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4. Contingencies, Guarantees and Indemnifications (continued)

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 our business or financial position. The outcome of litigation is always uncertain, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a particular quarter or annual period.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to a former subsidiary, joint ventures and industrial revenue bonds. These agreements generally expire from 2005 through 2019. The maximum exposure under these agreements as of March 31, 2006, was approximately $174.0 million; however, we believe the likelihood is remote that material payments will be required and therefore have not accrued for a liability on our consolidated statements of financial position. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event that performance is required under the guarantees or other recourse generally available to us, therefore, such guarantees would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such guarantees is not material.

In connection with the 2002 sale of BT Financial Group, we agreed to indemnify the purchaser, Westpac Banking Corporation ("Westpac"), for among other things, the costs associated with potential late filings made by BT Financial Group in New Zealand prior to Westpac's ownership, up to a maximum of A$250.0 million Australian dollars (approximately U.S. $179.0 million as of March 31, 2006). New Zealand securities regulations allow Australian issuers to issue their securities in New Zealand provided that certain documents are appropriately filed with the New Zealand Registrar of Companies. Specifically, the regulations require that any amendments to constitutions and compliance plans be filed in New Zealand. In April 2003, the New Zealand Securities Commission opined that such late filings would result in certain New Zealand investors having a right to return of their investment plus interest at 10% per annum from the date of investment. This technical issue affected many in the industry.

On December 24, 2004, Westpac lodged several warranty and indemnification claims related to the sale of BT Financial Group. The claims aggregated approximately A$50.0 million Australian dollars (approximately U.S. $36.0 million as of March 31, 2006) with the majority of the claims (approximately A$45.0 million Australian dollars, or U.S. $32.0 million as of March 31, 2006) related to fund pricing and accounting issues around a tax asset called future income tax benefit ("FITB"). FITB is an asset used in calculating unit pricing of funds. Westpac claimed that BT Financial Group incorrectly accrued FITB assets in valuing asset portfolios of BT funds in Australia and New Zealand and that, as a result, fund values were overstated.

The claims made by Westpac related to both indemnifications were settled and paid by us in 2006. This settlement did not have a material impact on net income.

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4. Contingencies, Guarantees and Indemnifications (continued)

We are also subject to various other indemnification obligations issued in conjunction with certain transactions, primarily the sale of Principal Residential Mortgage, Inc. and other divestitures, acquisitions and financing transactions whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe the likelihood is remote that material payments would be required under such indemnifications and therefore such indemnifications would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such indemnifications is not material.

5. Stockholders' Equity

Reconciliation of Outstanding Shares

	Series A Preferred Stock	Series B Preferred Stock	Common Stock
		(in millions)	
Outstanding shares at January 1, 2005	—	—	300.6
Shares issued	—	—	0.4
Treasury stock acquired	—	—	(4.2)
Outstanding shares at March 31, 2005	—	—	296.8
Outstanding shares at January 1, 2006	**3.0**	**10.0**	**280.6**
Shares issued	**—**	**—**	**0.4**
Treasury stock acquired	**—**	**—**	**(3.4)**
Outstanding shares at March 31, 2006	**3.0**	**10.0**	**277.6**

6. Comprehensive Loss

Comprehensive loss is as follows:

	For the three months ended March 31, 2006	2005
	(in millions)	
Comprehensive loss:		
Net income	**$ 293.9**	$ 205.5
Net change in unrealized gains and losses on fixed maturities, available-for-sale	**(743.3)**	(532.5)
Net change in unrealized gains and losses on equity securities, available-for-sale	**1.3**	(6.3)
Net change in unrealized gains and losses on equity method subsidiaries and minority interest adjustments	**69.5**	0.3
Adjustments for assumed changes in amortization patterns:		
Deferred policy acquisition costs	**87.7**	43.6
Sales inducements	**4.5**	3.6
Unearned revenue reserves	**(3.8)**	7.1
Net change in unrealized gains and losses on derivative instruments	**16.5**	24.6
Adjustments to unrealized gains and losses for Closed Block policyholder dividend obligation	**33.7**	52.9
Change in net foreign currency translation adjustment	**1.4**	(9.0)
Provision for deferred income tax benefit	**177.0**	148.8
Comprehensive loss	**$ (61.6)**	$ (61.4)

7. Segment Information

We provide financial products and services through the following segments: U.S. Asset Management and Accumulation, International Asset Management and Accumulation and Life and Health Insurance. 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 our asset accumulation business, the life and health insurance operations, the Corporate and Other segment and third-party clients.

The International Asset Management and Accumulation segment consists of Principal International operations in Chile, Mexico, Hong Kong, Brazil, India, China, and Malaysia. We focus on countries with favorable demographics and a trend toward private sector defined contribution pension systems. We entered these countries through acquisitions, start-up operations and joint ventures.

The Life and Health insurance segment provides individual life insurance, group health insurance and specialty benefits, which consists of group dental and vision insurance, individual and group disability insurance and group life insurance, throughout 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 our financing activities (including interest expense), income on capital not allocated to other segments, inter-segment eliminations, income tax risks and certain income, expenses and other after-tax adjustments not allocated to the segments based on the nature of such items.

Management uses segment operating earnings for goal setting, determining employee compensation and evaluating performance on a basis comparable to that used by securities analysts. We determine segment operating earnings by adjusting U.S. GAAP net income available to common stockholders for net realized/unrealized capital gains and losses, as adjusted, and other after-tax adjustments which management believes are not indicative of overall operating trends. Net realized/unrealized capital gains and losses, as adjusted, are net of income taxes, related changes in the amortization pattern of DPAC and sales inducements, recognition of front-end fee revenues for sales charges on pension products and services, net realized capital gains and losses distributed, minority interest capital gains and losses and certain market value adjustments to fee revenues. Segment operating revenues exclude net realized/unrealized capital gains and their impact on recognition of front-end fee revenues and certain market value adjustments to fee revenues and include operating revenues from real estate properties that qualify for discontinued operations treatment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. 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 our results of operations by highlighting earnings attributable to the normal, ongoing operations of the business.

The accounting policies of the segments are consistent with the accounting policies for the consolidated financial statements, with the exception of income tax allocation. The Corporate and Other segment functions to absorb the risk inherent in interpreting and applying tax law. The segments are allocated tax adjustments consistent with our tax position. The Corporate and Other segment results reflect any differences between the tax returns and the estimated resolution of any disputes.

7. Segment Information (continued)

The following tables summarize selected financial information by segment and reconcile segment totals to those reported in the consolidated financial statements:

	March 31, 2006	December 31, 2005
	(in millions)	
Assets:		
U.S. Asset Management and Accumulation	**$ 108,307.9**	$ 103,506.1
International Asset Management and Accumulation	**6,978.7**	6,856.2
Life and Health Insurance	**14,090.4**	14,080.2
Corporate and Other	**2,597.5**	2,592.9
Total consolidated assets	**$ 131,974.5**	$ 127,035.4

	For the three months ended March 31,	
	2006	2005
	(in millions)	
Operating revenues by segment:		
U.S. Asset Management and Accumulation	**$ 1,049.8**	$ 957.3
International Asset Management and Accumulation	**143.4**	132.8
Life and Health Insurance	**1,159.6**	1,068.6
Corporate and Other	**(9.7)**	(10.1)
Total segment operating revenues	**2,343.1**	2,148.6
Add:		
Net realized/unrealized capital gains (losses), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**48.6**	(4.0)
Subtract:		
Operating revenues from discontinued real estate investments	**—**	0.9
Total revenues per consolidated statements of operations	**$ 2,391.7**	$ 2,143.7
Operating earnings (loss) by segment, net of related income taxes:		
U.S. Asset Management and Accumulation	**$ 157.8**	$ 138.6
International Asset Management and Accumulation	**17.6**	9.5
Life and Health Insurance	**70.4**	69.5

Corporate and Other	**(5.6)**	(8.4)
Total segment operating earnings, net of related income taxes	**240.2**	209.2
Net realized/unrealized capital gains (losses), as adjusted	**24.9**	(3.7)
Other after-tax adjustments (1)	**20.6**	¾
Net income available to common stockholders per consolidated statements of operations	**$ 285.7**	$ 205.5

(1) In 2006, other after-tax adjustments of $20.6 million included the positive effect of a favorable court ruling on a contested IRS issue.

8. Stock-Based Compensation Plans

As of March 31, 2006, we have the 2005 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan. As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan (“Stock-Based Compensation Plans”). Under the terms of the 2005 Stock Incentive Plan, grants may be nonqualified stock options, incentive stock options qualifying under Section 422 of the Internal Revenue Code, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, or other stock based awards. The 2005 Directors Stock Plan provides for the grant of nonqualified stock options, restricted stock, restricted stock units, or other stock-based awards to our nonemployee directors. To date, we have not granted any incentive stock options, restricted stock, or performance units.

As of March 31, 2006, the maximum number of new shares of common stock that were available for grant under the 2005 Stock Incentive Plan and the 2005 Directors Stock Plan was 21.5 million.

The compensation cost that was charged against income for the Stock-Based Compensation Plans was $11.6 million and $7.3 million, and the related income tax benefit recognized in the income statement was $3.4 million and $2.1 million for the three months ended March 31, 2006 and 2005, respectively. For awards with graded vesting, we use an accelerated expense attribution method. The total compensation cost capitalized as part of the cost of an asset was $0.9 million and $0.2 million for the three months ended March 31, 2006 and 2005, respectively.

Nonqualified Stock Options

We issue nonqualified stock options under the 2005 Directors Stock Plan, Directors Stock Plan, 2005 Stock Incentive Plan, and Stock Incentive Plan. Nonqualified stock options are treated as an equity award.

Non-qualified stock options were granted to certain employees under the Stock Incentive Plan and the 2005 Stock Incentive Plan. Total options granted under the Stock Incentive Plan and the 2005 Stock Incentive Plan were 2.1 million and 2.7 million for the three months ended March 31, 2006 and 2005, respectively. Options outstanding under the Stock Incentive Plan and the 2005 Stock Incentive Plan were granted at an exercise price equal to the market value of our common stock on the date of grant, and expire ten years after the grant date. These options are treated as an equity award and have graded or cliff vesting over a three-year period.

Non-qualified stock options granted under the Directors stock plans have an exercise price equal to the fair market value of the common stock on the date of the grant and a contractual term equal to the earlier of five years from the date the participant ceases to provide service or the tenth anniversary of the date the option was granted. Beginning with the 2003 grant, options become exercisable in four approximately equal installments on the three, six and nine month anniversaries of the grant date, and on the date that the Director’s full term of office expires. There were no options granted during the three months ended March 31, 2006 or 2005.

The fair value of stock options is estimated using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of our stock and other factors. Due to our limited public company history, we use peer data to estimate option exercise and employee termination within the valuation model. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is estimated based on peer data and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury risk free interest rate in effect at the time of grant.

Cash received from option exercise under all share-based payment arrangements for the three months ended March 31, 2006 was $6.1 million. The actual tax benefits realized for the tax deductions for option exercise of the share-based payment arrangements were $3.4 million for the three months ended March 31, 2006.

8. Stock-Based Compensation Plans (continued).

The following is a summary of assumptions for the stock options:

Options	For the three months ended March 31, 2006	2005
Dividend yield	1.32%	1.41%
Expected volatility	16.2%	19.1%
Risk-free interest rate	4.6%	4.1%
Expected life (in years)	6	6

The weighted-average estimated fair value of stock options granted during the three months ended March 31, 2006 and 2005, using the Black-Scholes option valuation model was $11.40 and $9.17 per share, respectively.

The following is a summary of the status of all of our stock option plans for the three months ended March 31, 2006:

	Number of options (in millions)	Weighted-average exercise price	Intrinsic Value (in millions)
Options outstanding at January 1, 2006	7.8	$ 33.06	
Granted	2.1	49.25	
Exercised	0.2	29.44	
Canceled	—	—	
Options outstanding at March 31, 2006	9.7	$ 36.62	$117.7
Vested or expected to vest at March 31, 2006	9.2	$ 36.20	$116.2
Options exercisable at March 31, 2006	5.2	$ 30.86	$93.1

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $4.1 million and $3.3 million, respectively.

The following is a summary of weighted-average remaining contractual lives for stock options outstanding and the range of exercise prices on the stock options as of March 31, 2006.

Range of exercise prices	Number of options outstanding (in millions)	Weighted-average remaining contractual life
$22.33 - $28.93	3.0	6
$29.10 - $35.54	0.3	7
$35.73 - $44.13	4.3	8
$46.40 - $49.25	2.1	10
$22.33 - $49.25	9.7	8

The weighted-average remaining contractual lives for stock options exercisable is approximately 7 years as of March 31, 2006.

8. Stock-Based Compensation Plans (continued)

Performance Share Awards

Beginning in 2006, we granted performance share awards to certain employees. The performance share awards are treated as an equity award and cliff vest at the end of the service period. The performance shares earned, and paid in shares, depend upon the participant's continued employment through the performance period and our performance against three-year goals set at the beginning of the performance period. A return on equity objective and an earnings per share objective must be achieved for any of the performance shares to be earned. If the performance requirements are not met, the performance shares will be forfeited and no compensation cost is recognized and any previously recognized compensation cost is reversed. There is no maximum contractual term on these awards. As of March 31, 2006, there were $37.2 million of total unrecognized compensation costs related to nonvested performance share awards granted. The cost is expected to be recognized over a weighted-average service period of approximately 3 years.

The fair value of performance share awards is determined based on the closing stock price of our shares on the grant date. The weighted-average grant-date fair value of performance share awards granted during the three months ended March 31, 2006 was $49.25. Because no performance share awards vested, the intrinsic value is $0.0 million for the three months ended March 31, 2006.

The following is a summary of activity for the nonvested performance share awards:

	Number of performance share awards (in millions)	Weighted-average grant-date fair value
Nonvested performance share awards at January 1, 2006	¾	$ —
Granted	0.8	49.25
Vested	¾	¾
Forfeited	¾	¾

Nonvested performance share awards at March 31, 2006	**0.8**	$	**49.25**

Restricted Stock Units

We issue restricted stock units under the 2005 Directors Stock Plan, Directors Stock Plan, 2005 Stock Incentive Plan, and Stock Incentive Plan. Restricted stock units are treated as an equity award. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. There is no maximum contractual term on these awards.

Restricted stock units were issued to certain employees and agents pursuant to the Stock Incentive Plan and 2005 Stock Incentive Plan. Under these plans, awards have a graded or cliff vesting over a three-year service period. When service for the Company ceases, all vesting stops and unvested units are forfeited.

Beginning in 2005, pursuant to the 2005 Directors Stock Plan, restricted stock units are now granted to each director in office immediately following each annual meeting of stockholders and to each person who becomes a member of the Board other than on the date of the annual meeting of stockholders. Prior to this time, awards of restricted stock units were granted pursuant to the Directors Stock Plan on the date of each Board member's election or re-election date. Under the 2005 Directors Stock Plan, awards are granted on an annual basis and cliff vest over the one-year service period. Non-vested awards under the prior plan have graded vesting over a three-year service period. When service to the Company ceases, all vesting stops and unvested units are forfeited.

8. Stock-Based Compensation Plans (continued)

For the three months ended March 31, 2006 and 2005, 0.2 million and 0.4 million restricted stock units were granted, respectively. The weighted-average grant-date fair value of restricted stock units granted during the three months ended March 31, 2006 and 2005 was $49.23 and $39.02, respectively.

As of March 31, 2006, there were $19.5 million of total unrecognized compensation costs related to nonvested restricted stock unit awards granted under these plans. The cost is expected to be recognized over a weighted-average period of approximately 2 years. The total intrinsic value of restricted stock units vested during the three months ended March 31, 2006 and 2005 was $3.4 million and $0.9 million, respectively.

The following is a summary of activity for the nonvested restricted stock units:

	Number of restricted stock units (in millions)		Weighted-average grant-date fair value
Nonvested restricted stock units at January 1, 2006	**0.9**	$	**36.71**
Granted	**0.2**		**49.23**
Vested	**0.1**		**37.28**
Forfeited	**—**		**39.16**
Nonvested restricted stock units at March 31, 2006	**1.0**	$	**39.04**

Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan, participating employees have the opportunity to purchase shares of our common stock on a quarterly basis. Employees may purchase up to $25,000 worth of company stock each year. Employees may purchase shares of our common stock at a price equal to 85% of the shares' fair market value as of the beginning or end of the quarter, whichever is lower. Under the Employee Stock Purchase Plan, employees purchased 0.3 million shares during the three months ended March 31, 2006 and 2005.

We recognize compensation expense for the fair value of the 15% discount granted to employees participating in the employee stock purchase plan in the quarter of grant. Shares of the Employee Stock Purchase Plan are treated as an equity award. The weighted-average fair value of stock purchased during the three months ended March 31, 2006 and 2005 was $8.23 and $5.77, respectively. The total intrinsic value of the Employee Stock Purchase Plan settled during the three months ended March 31, 2006 and 2005 was $2.2 million and $1.6 million, respectively.

The maximum number of shares of common stock that we may issue under the Employee Stock Purchase Plan is 2% of the number of shares outstanding immediately following the completion of the Initial Public Offering. As of March 31, 2006, a total of 3.7 million of new shares are available to be made issuable by us for this plan.

8. Stock-Based Compensation Plans (continued)

Long-Term Performance Plan

We also maintain the Long-Term Performance Plan, which provides the opportunity for eligible executives to receive additional awards if specified minimum corporate performance objectives are achieved over a three-year period. This plan utilizes stock as an option for payment and is treated as a liability award during vesting and a liability award or equity award subsequent to vesting, based on the participant payment election. Effective with stockholder approval of the 2005 Stock Incentive Plan, no further grants will be made under the Long-Term Performance Plan, and any future awards earned under the Long-Term Performance Plan will be issued under the 2005 Stock Incentive Plan. As of the year ended December 31, 2005, all awards under this plan were fully vested and no awards were granted under this plan in 2006 or 2005. There is no maximum contractual term on these awards.

The amount of cash used to settle Long-Term Performance Plan units granted was $10.6 million and $6.1 million for the three months ended March 31, 2006 and 2005, respectively. The total intrinsic value of Long-Term Performance Plan units settled during the three months ended March 31, 2006 and 2005 was $11.1 million and $6.3 million, respectively.

The fair value of Long-Term Performance Plan liability units is determined as of each reporting period based on the Black-Scholes option pricing model that uses the assumptions noted in the following table:

Long-Term Performance Plan	For the three months ended March 31, 2006
Dividend yield	**—%**
Expected volatility	**12.3%**
Risk-free interest rate	**4.7%**
Expected life (in years)	**3**

Stock Appreciation Rights

In 2004 and 2003, stock appreciation rights were issued to agents meeting certain production requirements. Since our stock appreciation rights settle in cash, they are treated as a liability award and have graded vesting over a three-year-period. The maximum contractual term is ten years. There were no stock appreciation rights granted during the three months ended March 31, 2006 and 2005, respectively. The amount of cash used to settle stock appreciation rights granted was $0.1 million and $0.0 million for the three months ended March 31, 2006 and 2005, respectively.

The fair value of each stock appreciation right is estimated for each reporting period using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of our stock and other factors. We use historical data and other factors to estimate exercise and employee termination within the valuation model. The expected term of stock appreciation rights granted represents the period of time that stock appreciation rights granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury risk free interest rate in effect at the time of measurement.

8. Stock-Based Compensation Plans (continued)

The following is a summary of assumptions for the stock appreciation rights:

Stock Appreciation Rights	For the three months ended March 31, 2006
Dividend yield	**1.31%**
Expected volatility	**14.3%**
Risk-free interest rate	**4.7%**
Expected life (in years)	**4**

As of March 31, 2006, there were $0.0 million of total unrecognized compensation costs related to nonvested stock appreciation rights awards granted under these plans. The weighted-average estimated fair value of stock appreciation rights outstanding during the three months ended March 31, 2006, using the Black-Scholes option valuation model was $20.25 per share. For periods prior to adoption of SFAS 123R, we valued stock appreciation rights using the intrinsic value method. The total intrinsic value of stock appreciation rights exercised during the three months ended March 31, 2006 and 2005 was $0.1 million and $0.0 million, respectively.

9. Earnings Per Common Share

The computations of the basic and diluted per share amounts for our continuing operations were as follows:

	For three months ended March 31,	
	2006	2005
	(in millions, except per share data)	
Income from continuing operations, net of related income taxes	**$ 293.9**	$ 204.9
Subtract:		
Preferred stock dividends	**8.2**	—

		2006		2005
Income from continuing operations available to common stockholders, net of related income taxes	$	**285.7**	$	204.9
Weighted-average shares outstanding:				
Basic		**279.4**		299.5
Dilutive effects:				
Stock options		**1.9**		1.4
Restricted stock units		**0.6**		0.3
Diluted		**281.9**		301.2
Income from continuing operations per common share:				
Basic	$	**1.02**	$	0.68
Diluted	$	**1.01**	$	0.68

10. Condensed Consolidating Financial Information

Principal Life has established special purpose entities to issue secured medium-term notes. Under the program, the payment obligations of principal and interest on the notes are secured by funding agreements issued by Principal Life. Principal Life's payment obligations on the funding agreements are fully and unconditionally guaranteed by Principal Financial Group, Inc. All of the outstanding stock of Principal Life is indirectly owned by Principal Financial Group, Inc. and Principal Financial Group, Inc. is the only guarantor of the payment obligations of the funding agreements.

We received a subpoena on March 31, 2005 from the Attorney General of West Virginia for documents and other information relating to funding agreement-backed securities, special purpose vehicles related to funding agreement-backed securities, and related subjects. A response has been sent. We understand that other U.S.-based life insurers that have funding agreement-backed note programs such as our on-going programs have received similar subpoenas from the Attorney General of West Virginia. Other than the subpoena, we have received no notification of any pending or threatened investigation or other proceeding by West Virginia governmental authorities involving funding agreement-backed securities.

The following tables set forth condensed consolidating financial information of Principal Life and Principal Financial Group, Inc. as of March 31, 2006 and December 31, 2005, and for the three months ended March 31, 2006 and 2005.

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ —	$ 39,077.6	$ 4,196.0	$ (757.2)	$ 42,516.4
Fixed maturities, trading	—	29.2	136.6	¾	165.8
Equity securities, available-for-sale	—	647.7	74.7	¾	722.4
Equity securities, trading	—	9.6	86.0	¾	95.6
Mortgage loans	—	9,431.4	2,227.9	(332.6)	11,326.7
Real estate	—	425.0	584.8	—	1,009.8
Policy loans	—	838.0	—	—	838.0
Investment in unconsolidated entities	7,054.1	303.5	4,787.1	(11,840.8)	303.9
Other investments	10.0	2,290.1	123.3	(1,527.5)	895.9
Cash and cash equivalents	112.3	888.5	640.5	(33.1)	1,608.2
Accrued investment income	—	647.5	58.1	(5.5)	700.1
Premiums due and other receivables	425.0	660.0	124.5	(535.9)	673.6
Deferred policy acquisition costs	—	2,195.7	112.4	—	2,308.1
Property and equipment	—	398.5	22.1	—	420.6
Goodwill	—	77.2	222.0	—	299.2
Other intangibles	—	39.2	170.1	—	209.3
Separate account assets	—	62,834.1	3,516.2	(6.9)	66,343.4
Other assets	—	1,090.1	226.2	(221.2)	1,537.5
Total assets	$ 7,601.4	$ 121,882.9	$ 17,308.5	$ (14,818.3)	$ 131,974.5
Liabilities					
Contractholder funds	$ —	$ 34,737.2	$ 13.9	$ (198.8)	$ 34,552.3

Future policy benefits and claims	**—**	**14,718.7**	**2,175.6**	**—**	**16,894.3**
Other policyholder funds	**—**	**649.9**	**3.4**	**—**	**653.3**
Short-term debt	**—**	**147.6**	**337.3**	**(88.5)**	**396.4**
Long-term debt	**—**	**247.5**	**1,305.2**	**(659.1)**	**893.6**
Income taxes currently payable	**(1.7)**	**(303.4)**	**24.9**	**280.7**	**0.5**
Deferred income taxes	**2.4**	**483.2**	**222.8**	**3.2**	**711.6**
Separate account liabilities	**—**	**62,834.1**	**3,516.2**	**(6.9)**	**66,343.4**
Other liabilities	**2.0**	**1,829.4**	**2,655.1**	**(556.1)**	**3,930.4**
Total liabilities	**2.7**	**115,344.2**	**10,254.4**	**(1,225.5)**	**124,375.8**
Stockholders' equity					
Series A preferred stock	**—**	**—**	**—**	**—**	**—**
Series B preferred stock	**0.1**	**—**	**—**	**—**	**0.1**
Common stock	**3.8**	**2.5**	**—**	**(2.5)**	**3.8**
Additional paid-in capital	**8,024.8**	**5,365.1**	**7,082.8**	**(12,447.9)**	**8,024.8**
Retained earnings (deficit)	**2,294.3**	**720.7**	**(661.5)**	**(59.2)**	**2,294.3**
Accumulated other comprehensive income	**639.3**	**450.4**	**632.8**	**(1,083.2)**	**639.3**
Treasury stock, at cost	**(3,363.6)**	**—**	**—**	**—**	**(3,363.6)**
Total stockholders' equity	**7,598.7**	**6,538.7**	**7,054.1**	**(13,592.8)**	**7,598.7**
Total liabilities and stockholders' equity	**$ 7,601.4**	**$ 121,882.9**	**$ 17,308.5**	**$ (14,818.3)**	**$ 131,974.5**

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ —	$ 38,886.6	$ 3,896.5	$ (665.9)	$ 42,117.2
Fixed maturities, trading	—	18.9	94.3	¾	113.2
Equity securities, available-for-sale	—	658.8	65.6	¾	724.4
Equity securities, trading	—	—	90.3	¾	90.3
Mortgage loans	—	9,448.9	2,365.5	(330.1)	11,484.3
Real estate	—	412.8	586.6	—	999.4
Policy loans	—	827.7	—	—	827.7
Investment in unconsolidated entities	7,784.2	275.6	5,515.1	(13,311.0)	263.9
Other investments	—	2,041.8	129.6	(1,321.8)	849.6
Cash and cash equivalents	21.6	1,261.9	542.3	(184.5)	1,641.3
Accrued investment income	—	638.8	48.5	(4.6)	682.7
Premiums due and other receivables	—	589.2	112.7	(109.2)	592.7
Deferred policy acquisition costs	—	2,069.9	104.2	—	2,174.1
Property and equipment	—	397.2	22.6	—	419.8
Goodwill	—	50.4	231.9	—	282.3
Other intangibles	—	39.2	163.4	—	202.6
Separate account assets	—	58,670.7	3,415.5	(16.2)	62,070.0
Other assets	3.5	1,361.4	258.1	(123.1)	1,499.9
Total assets	$ 7,809.3	$ 117,649.8	$ 17,642.7	$ (16,066.4)	$ 127,035.4
Liabilities					
Contractholder funds	$ —	$ 33,797.0	$ 13.5	$ (198.4)	$ 33,612.1
Future policy benefits and claims	—	14,650.3	2,175.2	—	16,825.5
Other policyholder funds	—	654.1	3.0	—	657.1
Short-term debt	—	—	565.6	(89.2)	476.4
Long-term debt	—	241.9	1,223.9	(567.0)	898.8
Income taxes currently payable	—	—	0.3	(0.3)	—
Deferred income taxes	—	753.1	237.1	(15.4)	974.8
Separate account liabilities	—	58,670.7	3,415.5	(16.2)	62,070.0
Other liabilities	2.1	1,800.1	2,224.4	(313.1)	3,713.5
Total liabilities	2.1	110,567.2	9,858.5	(1,199.6)	119,228.2
Stockholders' equity					
Series A preferred stock	¾	—	—	—	¾
Serice B preferred stock	0.1	—	—	—	0.1
Common stock	3.8	2.5	—	(2.5)	3.8
Additional paid-in capital	8,000.0	5,354.8	7,071.3	(12,426.1)	8,000.0
Retained earnings (deficit)	2,008.6	870.4	(281.9)	(588.5)	2,008.6
Accumulated other comprehensive income	994.8	854.9	994.8	(1,849.7)	994.8

Treasury stock, at cost	(3,200.1)	—	—	—	(3,200.1)
Total stockholders' equity	7,807.2	7,082.6	7,784.2	(14,866.8)	7,807.2
Total liabilities and stockholders' equity	$ 7,809.3	$ 117,649.8	$ 17,642.7	$ (16,066.4)	$ 127,035.4

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2006
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$ —	$ 967.2	$ 74.6	$ —	$ 1,041.8
Fees and other revenues	—	312.8	204.9	(68.9)	448.8
Net investment income	0.3	769.2	88.9	(6.2)	852.2
Net realized/unrealized capital gains	—	—	49.3	(0.4)	48.9
Total revenues	0.3	2,049.2	417.7	(75.5)	2,391.7
Expenses					
Benefits, claims, and settlement expenses	—	1,249.4	95.6	(3.2)	1,341.8
Dividends to policyholders	—	71.9	—	—	71.9
Operating expenses	2.7	466.9	193.2	(58.4)	604.4
Total expenses	2.7	1,788.2	288.8	(61.6)	2,018.1
Income (loss) from continuing operations before income taxes	(2.4)	261.0	128.9	(13.9)	373.6
Income taxes (benefits)	(0.9)	49.1	31.9	(0.4)	79.7
Equity in the net income of subsidiaries	295.4	63.3	198.4	(557.1)	—
Net income	293.9	275.2	295.4	(570.6)	293.9
Preferred stock dividends	8.2	—	—	—	8.2
Net income available to common stockholders	$ 285.7	$ 275.2	$ 295.4	$ (570.6)	$ 285.7

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$ —	$ 846.7	$ 87.4	$ —	$ 934.1
Fees and other revenues	—	286.3	194.5	(63.6)	417.2
Net investment income	0.6	738.6	50.8	3.9	793.9
Net realized/unrealized capital losses	—	(1.7)	(0.1)	0.3	(1.5)
Total revenues	0.6	1,869.9	332.6	(59.4)	2,143.7
Expenses					
Benefits, claims, and settlement expenses	—	1,139.9	97.1	(2.7)	1,234.3
Dividends to policyholders	—	72.9	—	—	72.9
Operating expenses	3.0	425.6	184.1	(55.8)	556.9
Total expenses	3.0	1,638.4	281.2	(58.5)	1,864.1

Income (loss) from continuing operations before income taxes	(2.4)	231.5	51.4	(0.9)	279.6
Income taxes (benefits)	(1.4)	59.0	16.8	0.3	74.7
Equity in the net income of subsidiaries, excluding discontinued operations	205.9	26.8	171.3	(404.0)	—
Income from continuing operations, net of related income taxes	204.9	199.3	205.9	(405.2)	204.9
Income from discontinued operations, net of related income taxes	0.6	0.6	0.6	(1.2)	0.6
Net income	$ 205.5	$ 199.9	$ 206.5	$ (406.4)	$ 205.5

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (0.5)	$ 310.3	$ (112.1)	$ 227.7	$ 425.4
Investing activities					
Available-for-sale securities:					
Purchases	—	(2,046.5)	(348.0)	4.2	(2,390.3)
Sales	—	187.6	185.7	—	373.3
Maturities	—	893.5	53.8	—	947.3
Mortgage loans acquired or originated	—	(556.1)	(63.2)	25.8	(593.5)
Mortgage loans sold or repaid	—	571.6	60.7	(23.3)	609.0
Real estate acquired	—	(10.1)	(3.0)	—	(13.1)
Real estate sold	—	0.1	0.8	—	0.9
Net purchases of property and equipment	—	(9.6)	(2.9)	—	(12.5)
Purchases of interest in subsidiaries, net of cash acquired	—	—	(5.5)	—	(5.5)
Dividends received from (contributions to) unconsolidated entities	250.0	(190.5)	425.0	484.5	—
Net change in other investments	1.2	(2.6)	89.8	8.4	96.8
Net cash provided by (used in) investing activities	$ 251.2	$ (1,162.6)	$ 393.2	$ (469.4)	$ (987.6)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows (continued)
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Financing activities					
Issuance of common stock	$ 11.7	$ —	$ —	$ —	$ 11.7
Acquisition of treasury stock, net	(163.5)	—	—	—	(163.5)
Proceeds from financing element derivatives	—	40.6	—	—	40.6
Payments for financing element derivatives	—	(38.3)	—	—	(38.3)

Excess tax benefits from share-based payment arrangements	—	0.4	0.2	—	0.6
Dividends to preferred stockholders	(8.2)	—	—	—	(8.2)
Issuance of long-term debt	—	5.6	86.7	(92.1)	0.2
Principal repayments of long-term debt	—	(0.1)	(0.5)	—	(0.6)
Net proceeds (repayments) of short-term borrowings	—	147.6	(227.1)	0.7	(78.8)
Capital dividends paid to parent	—	(425.0)	(59.5)	484.5	—
Investment contract deposits	—	2,760.6	—	—	2,760.6
Investment contract withdrawals	—	(2,012.5)	—	—	(2,012.5)
Net increase in banking operation deposits	—	—	17.3	—	17.3
Net cash provided by (used in) financing activities	(160.0)	478.9	(182.9)	393.1	529.1
Net increase (decrease) in cash and cash equivalents	90.7	(373.4)	98.2	151.4	(33.1)
Cash and cash equivalents at beginning of period	21.6	1,261.9	542.3	(184.5)	1,641.3
Cash and cash equivalents at end of period	$ 112.3	$ 888.5	$ 640.5	$ (33.1)	$ 1,608.2

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows – (As Restated – See Note 1)
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash (used in) operating activities	$ (1.0)	$ (84.3)	$ (1.7)	$ 8.8	$ (78.2)
Investing activities					
Available-for-sale securities:					
Purchases	—	(1,301.3)	(680.0)	1.5	(1,979.8)
Sales	—	355.3	113.2	—	468.5
Maturities	—	760.8	535.7	—	1,296.5
Mortgage loans acquired or originated	—	(429.2)	(135.3)	25.0	(539.5)
Mortgage loans sold or repaid	—	491.7	69.1	(82.4)	478.4
Real estate acquired	—	(1.5)	(8.3)	—	(9.8)
Real estate sold	—	46.5	17.3	—	63.8
Net purchases of property and equipment	—	(19.8)	(1.8)	—	(21.6)
Purchases of interest in subsidiaries, net of cash acquired	—	—	(52.9)	—	(52.9)
Dividends received from unconsolidated entities	251.0	15.0	116.5	(382.5)	—
Net change in other investments	—	(146.9)	0.8	143.1	(3.0)
Net cash provided by (used in) investing activities	$ 251.0	$ (229.4)	$ (25.7)	$ (295.3)	$ (299.4)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows – (As Restated – See Note 1) (continued)
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Financing activities					
Issuance of common stock	$ 13.7	$ —	$ —	$ —	$ 13.7
Acquisition and sales of treasury stock, net	(164.6)	—	—	—	(164.6)
Proceeds from financing element derivatives	—	42.8	—	—	42.8

Payments for financing element derivatives	—	(31.1)	—	—	(31.1)
Issuance of long-term debt	—	3.0	4.7	—	7.7
Principal repayments of long-term debt	—	(25.0)	(33.3)	57.5	(0.8)
Net proceeds of short-term borrowings	—	251.6	223.5	2.0	477.1
Dividends paid to parent	—	—	(251.0)	251.0	—
Investment contract deposits	—	2,036.8	—	—	2,036.8
Investment contract withdrawals	—	(1,905.3)	—	—	(1,905.3)
Net decrease in banking operation deposits	—	—	(4.4)	—	(4.4)
Net cash provided by (used in) financing activities	(150.9)	372.8	(60.5)	310.5	471.9
Discontinued operations					
Net cash provided by operating activities	—	1.7	—	—	1.7
Net cash provided by discontinued operations	—	1.7	—	—	1.7
Net increase (decrease) in cash and cash equivalents	99.1	60.8	(87.9)	24.0	96.0
Cash and cash equivalents at beginning of period	75.4	31.8	410.0	(64.7)	452.5
Cash and cash equivalents at end of period	$ 174.5	$ 92.6	$ 322.1	$ (40.7)	$ 548.5
Cash and cash equivalents of discontinued operations included above					
At beginning of period	$ —	$ 1.9	$ —	$ —	$ 1.9
At end of period	$ —	$ 3.6	$ —	$ —	$ 3.6

10. Condensed Consolidating Financial Information (continued)

On June 30, 2004, our shelf registration statement with the SEC was declared effective. Following our June 2005 issuance of perpetual preferred stock under the shelf registration, we now have the ability to issue up to $2.45 billion of debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of Principal Financial Group, Inc. and trust preferred securities of three subsidiary trusts. If we issue additional securities, we intend to use the proceeds from the sale of the securities offered by the prospectus, including the corresponding junior subordinated debentures issued to the trusts in connection with their investment of all the proceeds from the sale of preferred securities, for general corporate purposes, including working capital, capital expenditures, investments in subsidiaries, share repurchase, acquisitions and refinancing of debt, including commercial paper and other short-term indebtedness. Principal Financial Services, Inc. unconditionally guarantees our obligations with respect to one or more series of debt securities described in the shelf registration statement.

The following tables set forth condensed consolidating financial information of Principal Financial Services, Inc. and Principal Financial Group, Inc. as of March 31, 2006 and December 31, 2005, and for the three months ended March 31, 2006 and 2005.

Condensed Consolidating Statements of Financial Position
March 31, 2006
(Unaudited)

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ —	$ 14.1	$ 42,502.3	$ —	$ 42,516.4
Fixed maturities, trading	—	—	165.8	—	165.8
Equity securities, available-for-sale	—	0.9	721.5	—	722.4
Equity securities, trading	—	—	95.6	—	95.6
Mortgage loans	—	—	11,326.7	—	11,326.7
Real estate	—	—	1,009.8	—	1,009.8
Policy loans	—	—	838.0	—	838.0
Investment in unconsolidated entities	7,054.1	7,668.8	303.8	(14,722.8)	303.9
Other investments	10.0	18.3	877.6	(10.0)	895.9
Cash and cash equivalents	112.3	795.2	1,431.2	(730.5)	1,608.2
Accrued investment income	—	0.2	699.9	—	700.1
Premiums due and other receivables	425.0	1.8	671.8	(425.0)	673.6
Deferred policy acquisition cost	—	—	2,308.1	—	2,308.1
Property and equipment	—	—	420.6	—	420.6
Goodwill	—	—	299.2	—	299.2
Other intangibles	—	—	209.3	—	209.3
Separate account assets	—	—	66,343.4	—	66,343.4
Other assets	—	1.3	1,527.6	8.6	1,537.5
Total assets	$ 7,601.4	$ 8,500.6	$ 131,752.2	$ (15,879.7)	$ 131,974.5

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2006
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position (continued)
March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Liabilities					
Contractholder funds	$ —	$ —	$ 34,552.3	$ —	$ 34,552.3
Future policy benefits and claims	—	—	16,894.3	—	16,894.3
Other policyholder funds	—	—	653.3	—	653.3
Short-term debt	—	150.0	757.0	(510.6)	396.4
Long-term debt	—	464.4	429.2	—	893.6
Income taxes currently payable	(1.7)	(4.3)	(1.6)	8.1	0.5
Deferred income taxes	2.4	7.2	699.1	2.9	711.6
Separate account liabilities	—	—	66,343.4	—	66,343.4
Other liabilities	2.0	829.2	3,756.4	(657.2)	3,930.4
Total liabilities	2.7	1,446.5	124,083.4	(1,156.8)	124,375.8
Stockholders' equity					
Series A preferred stock	—	—	—	—	—
Series B preferred stock	0.1	—	—	—	0.1
Common stock	3.8	—	16.8	(16.8)	3.8
Additional paid-in capital	8,024.8	7,082.8	6,122.3	(13,205.1)	8,024.8
Retained earnings (deficit)	2,294.3	(661.5)	896.6	(235.1)	2,294.3
Accumulated other comprehensive income	639.3	632.8	635.1	(1,267.9)	639.3
Treasury stock, at cost	(3,363.6)	—	(2.0)	2.0	(3,363.6)
Total stockholders' equity	7,598.7	7,054.1	7,668.8	(14,722.9)	7,598.7
Total liabilities and stockholders' equity	$ 7,601.4	$ 8,500.6	$ 131,752.2	$ (15,879.7)	$ 131,974.5

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2006
(Unaudited)

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ —	$ 14.7	$ 42,102.5	$ —	$ 42,117.2
Fixed maturities, trading	—	—	113.2	—	113.2
Equity securities, available-for-sale	—	1.0	723.4	—	724.4
Equity securities, trading	—	—	90.3	—	90.3
Mortgage loans	—	—	11,484.3	—	11,484.3
Real estate	—	—	999.4	—	999.4
Policy loans	—	—	827.7	—	827.7
Investment in unconsolidated entities	7,784.2	8,168.9	263.8	(15,953.0)	263.9
Other investments	—	8.4	841.2	—	849.6
Cash and cash equivalents	21.6	701.3	1,822.4	(904.0)	1,641.3
Accrued investment income	—	0.2	682.5	—	682.7
Premiums due and other receivables	—	2.3	590.4	—	592.7
Deferred policy acquisition cost	—	—	2,174.1	—	2,174.1
Property and equipment	—	—	419.8	—	419.8
Goodwill	—	—	282.3	—	282.3

Other intangibles	—	—	202.6	—	202.6
Separate account assets	—	—	62,070.0	—	62,070.0
Other assets	3.5	15.0	1,499.9	(18.5)	1,499.9
Total assets	$ 7,809.3	$ 8,911.8	$ 127,189.8	$ (16,875.5)	$ 127,035.4
Liabilities					
Contractholder funds	$ —	$ —	$ 33,612.1	$ —	$ 33,612.1
Future policy benefits and claims	—	—	16,825.5	—	16,825.5
Other policyholder funds	—	—	657.1	—	657.1
Short-term debt	—	349.9	774.1	(647.6)	476.4
Long-term debt	—	464.3	434.5	—	898.8
Deferred income taxes	—	7.0	983.8	(16.0)	974.8
Separate account liabilities	—	—	62,070.0	—	62,070.0
Other liabilities	2.1	306.4	3,663.8	(258.8)	3,713.5
Total liabilities	2.1	1,127.6	119,020.9	(922.4)	119,228.2
Stockholders' equity					
Series A preferred stock	¾	—	—	—	—
Series B preferred stock	0.1	—	—	—	0.1
Common stock	3.8	—	16.8	(16.8)	3.8
Additional paid-in capital	8,000.0	7,071.3	6,108.7	(13,180.0)	8,000.0
Retained earnings (deficit)	2,008.6	(281.9)	1,050.1	(768.2)	2,008.6
Accumulated other comprehensive income	994.8	994.8	995.3	(1,990.1)	994.8
Treasury stock, at cost	(3,200.1)	—	(2.0)	2.0	(3,200.1)
Total stockholders' equity	7,807.2	7,784.2	8,168.9	(15,953.1)	7,807.2
Total liabilities and stockholders' equity	$ 7,809.3	$ 8,911.8	$ 127,189.8	$ (16,875.5)	$ 127,035.4

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$ —	$ —	$ 1,041.8	$ —	$ 1,041.8
Fees and other revenues	—	—	448.8	—	448.8
Net investment income	0.3	2.0	849.9	—	852.2
Net realized/unrealized capital gains (losses)	—	(0.4)	49.3	—	48.9
Total revenues	0.3	1.6	2,389.8	—	2,391.7
Expenses					
Benefits, claims, and settlement expenses	—	—	1,341.8	—	1,341.8
Dividends to policyholders	—	—	71.9	—	71.9
Operating expenses	2.7	11.8	589.9	—	604.4
Total expenses	2.7	11.8	2,003.6	—	2,018.1
Income (loss) from continuing operations before income taxes	(2.4)	(10.2)	386.2	—	373.6
Income taxes (benefits)	(0.9)	(3.5)	84.1	—	79.7
Equity in the net income of subsidiaries	295.4	302.1	—	(597.5)	—
Net income	293.9	295.4	302.1	(597.5)	293.9
Preferred stock dividends	8.2	—	—	—	8.2
Net income available to common stockholders	$ 285.7	$ 295.4	$ 302.1	$ (597.5)	$ 285.7

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$ —	$ —	$ 934.1	$ —	$ 934.1
Fees and other revenues	—	—	418.1	(0.9)	417.2
Net investment income	0.6	2.6	790.7	—	793.9
Net realized/unrealized capital losses	—	—	(1.5)	—	(1.5)
Total revenues	0.6	2.6	2,141.4	(0.9)	2,143.7
Expenses					
Benefits, claims, and settlement expenses	—	—	1,234.3	—	1,234.3
Dividends to policyholders	—	—	72.9	—	72.9
Operating expenses	3.0	11.3	543.5	(0.9)	556.9
Total expenses	3.0	11.3	1,850.7	(0.9)	1,864.1
Income (loss) from continuing operations before income taxes	(2.4)	(8.7)	290.7	—	279.6
Income taxes (benefits)	(1.4)	(2.9)	79.0	—	74.7
Equity in the net income of subsidiaries, excluding discontinued operations	205.9	211.7	—	(417.6)	—
Income from continuing operations, net of related income taxes	204.9	205.9	211.7	(417.6)	204.9
Income from discontinued operations, net of related income taxes	0.6	0.6	0.6	(1.2)	0.6
Net income	$ 205.5	$ 206.5	$ 212.3	$ (418.8)	$ 205.5

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ **(0.5)**	$ **(39.5)**	$ **414.6**	$ **50.8**	$ **425.4**
Investing activities					
Available-for-sale securities:					
Purchases	—	**129.0**	**(2,519.3)**	—	**(2,390.3)**
Sales	—	**1.2**	**372.1**	—	**373.3**
Maturities	—	—	**947.3**	—	**947.3**
Mortgage loans acquired or originated	—	—	**(593.5)**	—	**(593.5)**
Mortgage loans sold or repaid	—	—	**609.0**	—	**609.0**
Real estate acquired	—	—	**(13.1)**	—	**(13.1)**
Real estate sold	—	—	**0.9**	—	**0.9**
Net purchases of property and equipment	—	—	**(12.5)**	—	**(12.5)**
Purchases of interest in subsidiaries, net of cash acquired	—	—	**(5.5)**	—	**(5.5)**
Dividends received from unconsolidated entities	**250.0**	**439.0**	—	**(689.0)**	—
Net change in other investments	**1.2**	**14.2**	**95.7**	**(14.3)**	**96.8**
Net cash provided by (used in) investing activities	$ **251.2**	$ **583.4**	$ **(1,118.9)**	$ **(703.3)**	$ **(987.6)**

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows (continued)
For the three months ended March 31, 2006

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Financing activities					
Issuance of common stock	$ 11.7	$ —	$ —	$ —	$ 11.7
Acquisition of treasury stock, net	(163.5)	—	—	—	(163.5)
Proceeds from financing element derivatives	—	—	40.6	—	40.6
Payments for financing element derivatives	—	—	(38.3)	—	(38.3)
Excess tax benefits from share-based payment arrangements	—	—	0.6	—	0.6
Dividends to preferred stockholders	(8.2)	—	—	—	(8.2)
Issuance of long-term debt	—	—	0.2	—	0.2
Principal repayments of long-term debt	—	—	(0.6)	—	(0.6)
Net repayments of short-term borrowings	—	(200.0)	(15.8)	137.0	(78.8)
Dividends paid to parent	—	(250.0)	(439.0)	689.0	—
Investment contract deposits	—	—	2,760.6	—	2,760.6
Investment contract withdrawals	—	—	(2,012.5)	—	(2,012.5)
Net increase in banking operation deposits	—	—	17.3	—	17.3
Net cash provided by (used in) financing activities	(160.0)	(450.0)	313.1	826.0	529.1
Net increase (decrease) in cash and cash equivalents	90.7	93.9	(391.2)	173.5	(33.1)
Cash and cash equivalents at beginning of period	21.6	701.3	1,822.4	(904.0)	1,641.3
Cash and cash equivalents at end of period	$ 112.3	$ 795.2	$ 1,431.2	$ (730.5)	$ 1,608.2

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows – (As Restated – See Note 1)
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (1.0)	$ 9.1	$ (64.2)	$ (22.1)	$ (78.2)
Investing activities					
Available-for-sale securities:					
Purchases	—	(1.5)	(1,978.3)	—	(1,979.8)
Sales	—	0.8	467.7	—	468.5
Maturities	—	—	1,296.5	—	1,296.5
Mortgage loans acquired or originated	—	—	(539.5)	—	(539.5)
Mortgage loans sold or repaid	—	—	478.4	—	478.4
Real estate acquired	—	—	(9.8)	—	(9.8)
Real estate sold	—	—	63.8	—	63.8
Net purchases of property and equipment	—	—	(21.6)	—	(21.6)
Purchases of interest in subsidiaries, net of cash acquired	—	—	(52.9)	—	(52.9)
Dividends received from (contributions to) unconsolidated entities	251.0	33.0	(23.7)	(260.3)	—
Net change in other investments	—	0.2	(1.7)	(1.5)	(3.0)
Net cash provided by (used in) investing activities	251.0	32.5	(321.1)	(261.8)	(299.4)
Financing activities					
Issuance of common stock	13.7	—	—	—	13.7

Acquisition and sales of treasury stock, net	(164.6)	—	—	—	(164.6)
Proceeds from financing element derivatives	—	—	42.8	—	42.8
Payments for financing element derivatives	—	—	(31.1)	—	(31.1)
Issuance of long-term debt	—	—	7.7	—	7.7
Principal repayments of long-term debt	—	—	(0.8)	—	(0.8)
Net proceeds of short-term borrowings	—	250.0	268.3	(41.2)	477.1
Dividends paid to parent	—	(251.0)	—	251.0	—
Investment contract deposits	—	—	2,036.8	—	2,036.8
Investment contract withdrawals	—	—	(1,905.3)	—	(1,905.3)
Net decrease in banking operation deposits	—	—	(4.4)	—	(4.4)
Net cash provided by (used in) financing activities	$ (150.9)	$ (1.0)	$ 414.0	$ 209.8	$ 471.9

10. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows – (As Restated – See Note 1) (continued)
For the three months ended March 31, 2005

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Discontinued operations					
Net cash provided by operating activities	$ —	$ —	$ 1.7	$ —	$ 1.7
Net cash provided by discontinued operations	—	—	1.7	—	1.7
Net increase in cash and cash equivalents	99.1	40.6	30.4	(74.1)	96.0
Cash and cash equivalents at beginning of period	75.4	551.9	521.0	(695.8)	452.5
Cash and cash equivalents at end of period	$ 174.5	$ 592.5	$ 551.4	$ (769.9)	$ 548.5
Cash and cash equivalents of discontinued operations included above					
At beginning of period	$ —	$ —	$ 1.9	$ —	$ 1.9
At end of period	$ —	$ —	$ 3.6	$ —	$ 3.6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis discusses our financial condition as of March 31, 2006, compared with December 31, 2005, and our consolidated results of operations for the three months ended March 31, 2006 and 2005, prepared in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP"). The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2005, filed with the United States Securities and Exchange Commisssion ("SEC") and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

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

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to the following: (1) a decline or increased volatility in the securities markets could result in investors withdrawing from the markets or decreasing their rates of investment, either of which could reduce our net income, revenues and assets under management; (2) 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; (3) 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; (4) a downgrade in any of our ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors and cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations; (5) our efforts to reduce the impact of interest rate changes on our profitability and surplus may not be effective; (6) if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced; (7) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (8) our reserves established for future policy benefits and claims may prove inadequate, requiring us to increase liabilities; (9) our ability to pay stockholder dividends and meet

our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life Insurance Company ("Principal Life"); (10) the pattern of amortizing our deferred policy acquisition costs on our Statement of Financial Accounting Standard ("SFAS") No. 97 *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* products may change, impacting both the level of the asset and the emergence of our operating earnings; (11) we may need to fund deficiencies in our closed block ("Closed Block") assets; (12) changes in laws, regulations or accounting standards may reduce our profitability; (13) litigation and regulatory investigations may affect our financial strength or reduce our profitability; (14) fluctuations in foreign currency exchange rates could reduce our profitability; and (15) 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. For a more comprehensive discussion of these risks and uncertainties, please see Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2005.

Overview

We provide financial products and services through the following segments:

- U.S. Asset Management and Accumulation, which consists of our asset accumulation operations, which provide retirement savings and related investment products and services, and our asset management operations conducted through Principal Global Investors. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the U.S., 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, non-qualified executive benefit plans, and employee stock ownership plan consulting services. We also offer annuities, mutual funds and bank products and services to the employees of our

business customers and other individuals. Principal Global Investors offers an extensive range of equity, fixed income and real estate investments as well as specialized overlay and advisory services to institutional investors.

- International Asset Management and Accumulation, which consists of Principal International, offers retirement products and services, annuities, long-term mutual funds and life insurance through operations in Brazil, Chile, Mexico, China, Hong Kong, India, and Malaysia.

- Life and Health Insurance, which provides individual life insurance, group health insurance as well as specialty benefits in the U.S. Our individual life insurance products include universal and variable universal life insurance and traditional life insurance. Our health insurance products include group medical insurance and fee-for-service claims administration and wellness services. Our specialty benefit products include group dental and vision insurance, individual and group disability insurance, and group life insurance.

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

Transactions Affecting Comparability of Results of Operations

Acquisitions

We acquired the following businesses, among others, during 2006 and 2005:

Principal Global Services Private Limited — In December 2005, we formed Principal Global Services Private Limited ("PGS"), which will operate in Pune, India, starting in mid-2006. PGS employees will perform services for our U.S. operations including claims data entry, 401(k) processing, IT coding/application development, and IT quality assurance. PGS start up costs are reported in our Corporate and Other segment. Once operating, expenses will be allocated to segments for which services are performed.

Principal Commercial Funding II. On October 24, 2005, Principal Real Estate Investors and U.S. Bank National Association announced that they agreed to create Principal Commercial Funding II, a jointly-owned business that will compete in the commercial mortgage-backed securities ("CMBS") market. Principal Real Estate Investors is the real estate investment arm of Principal Global Investors. U.S. Bank National Association is the principal banking subsidiary of U.S. Bancorp. The new company is the CMBS platform for both Principal Real Estate Investors and U.S. Bank National Association and focuses on securitizing commercial mortgages originated by both Principal Real Estate Investors and U.S. Bank National Association on its behalf. Principal Commercial Funding II began operations immediately, and began contributing collateral to securitizations during the first quarter of 2006. The operations of Principal Commercial Funding II are reported in our U.S. Asset Management and Accumulation segment using the equity method of accounting.

CCB-Principal Asset Management Company, Ltd. On August 7, 2005, we announced that we entered into a joint venture agreement with China Construction Bank ("CCB") to market mutual funds in the People's Republic of China. We closed the transaction on September 19, 2005 with a 25% ownership in CCB-Principal Asset Management Company, Ltd. The operations of CCB-Principal Asset Management Company, Ltd are reported in our International Asset Management and Accumulation segment using the equity method of accounting.

PNB Principal Insurance Advisory Company Pvt. Ltd. On February 21, 2005, Principal Financial Group (Mauritius) Ltd. ("PFGM") acquired a 26% stake and management control of PNB Principal Insurance Advisory Company Pvt. Ltd. ("PPIAC"), an insurance brokerage company in India. The operations of PPIAC are reported and consolidated in our International Asset Management and Accumulation segment.

Dispositions

We entered into disposition agreements or disposed of the following business, among others, during 2006 and 2005:

ING/Principal Pensions Company Ltd. On May 26, 2005, we announced jointly with our partner, ING, the intent to liquidate the ING/Principal Pensions Company, Ltd. operation in Japan. On December 20, 2005, the liquidation process was

completed with a formal liquidation filing to the Japanese corporate registry. The results of ING/Principal Pensions Company Ltd. were reported in our International Asset Management and Accumulation segment.

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

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

Foreign currency exchange rate fluctuations create variances in our financial statement line items but have not had a material impact on our consolidated income from continuing operations. Our consolidated income from continuing operations was positively impacted by $2.4 million and $0.3 million for the three months ended March 31, 2006 and 2005, 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 Item 3. "Quantitative and Qualitative Disclosures about Market Risk."

Stock-Based Compensation Plans

As of March 31, 2006, we have the 2005 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan. As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan ("Stock-Based Compensation Plans"). Under the terms of the 2005 Stock Incentive Plan, grants may be nonqualified stock options, incentive stock options qualifying under Section 422 of the Internal Revenue Code, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, or other stock based awards. The 2005 Directors Stock Plan provides for the grant of nonqualified stock options, restricted stock, restricted stock units, or other stock-based awards to our nonemployee directors. To date, we have not granted any incentive stock options, restricted stock or performance units.

The compensation cost that was charged against income for the Stock-Based Compensation Plans was $11.6 million and $7.3 million, and the related income tax benefit recognized in the income statement was $3.4 million and $2.1 million for the three months ended March 31, 2006 and 2005, respectively. For awards with graded vesting, we use an accelerated expense attribution method. The total compensation cost capitalized as part of the cost of an asset was $0.9 million and $0.2 million for the three months ended March 31, 2006 and 2005, respectively.

Beginning in 2006, we granted performance share awards to certain employees. The performance share awards are treated as an equity award and cliff vest at the end of the service period. The performance shares earned, and paid in shares, depend upon the participant's continued employment through the performance period and our performance against three-year goals set at the beginning of the performance period. A return on equity objective and an earnings per share objective must be achieved for any of the performance shares to be earned. If the performance requirements are not met, the performance shares will be forfeited and no compensation cost is recognized and any previously recognized compensation cost is reversed. There is no maximum contractual term on these awards.

The total compensation cost related to nonvested awards not yet recognized is $56.7 million. This compensation cost is expected to be recognized over a weighted average period of approximately 2 years.

Pension and 401(k) Benefit Expense

Effective January 1, 2006, we made changes to our retirement program, including the Principal Select Savings Plan ("401(k) Plan") and the Principal Pension Plan ("Pension Plan") and the corresponding nonqualified plans. The qualified and nonqualified Pension Plans' changes include a reduction to the traditional and cash balance formulas, a change in the early retirement factors, and the removal of the cost of living adjustments for traditional benefits earned after January 1, 2006. The qualified and nonqualified 401(k) Plans' company match increased from 50 percent of a 6 percent deferral to 75 percent of an 8 percent deferral. The Pension Plan changes reduced the Pension Plan expense in 2006, while the 401(k) changes increased the 401(k) expense.

The 2006 pension expense for substantially all of our employees and certain agents is expected to be approximately $34.6 million. This is a decrease of $14.0 million over the 2005 pension expense. This decrease is due to the reduction in the Pension Plan formulas and asset performance in excess of our 8.5% long-term assumption. Partially offsetting this was an increase attributable to the use of a lower discount rate and lower long-term asset return assumption. Approximately $8.7 million of pre-tax pension expense was reflected in the determination of net income for the three months ended March 31, 2006. In addition, approximately $8.6 million of pre-tax pension expense will be reflected in each of the following three quarters for 2006. The discount rate used to develop the 2006 expense was lowered to 5.75%, down from the 6.0% discount rate used to develop the 2005 expense. The long-term asset assumption was also lowered to 8.25%, down from the 8.50% assumption used to develop the 2005 expense. The 2006 decrease in pension expense is expected to be offset by a $19.7 million increase in the qualified and nonqualified 401(k) Plans' company matching expense resulting from the January 1, 2006 changes.

Recent Accounting Changes

On March 17, 2006, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 156, *Accounting for Servicing of Financial Assets* ("SFAS 156"), which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). This Statement (1) requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specified situations, (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, (3) for subsequent measurement of each class of separately recognized servicing assets and liabilities, an entity can elect either the amortization or fair value measurement method, (4) permits a one-time reclassification of available-for-sale ("AFS") securities to trading securities by an entity with recognized servicing rights, without calling into question the treatment of other AFS securities, provided the AFS securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value, and (5) requires separate presentation of servicing assets and liabilities measured at fair value in the statement of financial position and also requires additional disclosures. The initial measurement requirements of this Statement should be applied prospectively to all transactions entered into after the fiscal year beginning after

September 15, 2006. The election related to the subsequent measurement of servicing assets and liabilities is also effective the first fiscal year beginning after September 15, 2006. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* ("SFAS 155"), which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") and SFAS 140. SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. At adoption, the fair value election may also be applied to hybrid financial instruments that have been bifurcated under SFAS 133 prior to adoption of this Statement. Any changes resulting from the adoption of this Statement should be recognized as a cumulative effect adjustment to beginning retained earnings. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R requires all share-based payments to employees to be recognized at fair value in the financial statements. SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure - an Amendment of FASB Statement No. 123* and amends SFAS No. 95, *Statement of Cash Flows*. On April 14, 2005, the SEC approved a new rule delaying the effective date of SFAS 123R to annual periods that begin after June 15, 2005. Accordingly, we adopted SFAS 123R effective January 1, 2006 using the modified prospective method.

It is appropriate to recognize compensation cost either immediately for stock awards granted to retirement eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if retirement eligibility is expected to occur during the nominal vesting period. Our approach has been to follow the widespread practice of recognizing compensation cost over the explicit service period (up to the date of actual retirement). For any awards that are granted after our adoption of SFAS 123R on January 1, 2006, we recognize compensation cost through the period that the employee first

becomes eligible to retire and is no longer required to provide service to earn the award. If we had applied the nonsubstantive vesting provisions of SFAS 123R to awards granted prior to January 1, 2006, our consolidated financial statements would not have been materially impacted.

SFAS 123R requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. While the company cannot estimate what those amounts will be in the future, (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized for the three months ended March 31, 2006, for such excess tax deductions, was $0.6 million.

Under the modified-prospective method, any excess tax deduction realized for awards accounted for under SFAS 123R (regardless of the type of award or the jurisdiction in which the tax benefit is generated) is eligible to absorb write-offs of deferred tax assets for any awards accounted for under SFAS 123R. SFAS 123R does not require separate pools of excess tax benefits for separate types of awards, rather the excess tax benefits of employee and nonemployee awards may be combined in a single pool of excess tax benefits. Our policy is to pool the employee and nonemployee awards together in this manner. Deferred tax asset write-offs resulting from deficient deductions on employee awards may be offset against previous excess tax benefits arising from nonemployee awards, and vice versa.

This Statement did not have a material impact on our consolidated financial statements as we began expensing all stock options using a fair-value based method effective for the year beginning January 1, 2002. In addition, any stock options granted prior to January 1, 2002 were fully vested at the time of adoption of SFAS 123R. We use the Black-Scholes formula to estimate the value of stock options granted to employees. We applied the prospective method of transition as prescribed by SFAS 123 when we elected to begin expensing stock-based compensation in 2002. The cumulative effect of the change in accounting principle as a result of adopting this Statement is immaterial. Therefore, the pre-tax cumulative effect of the change in accounting principle is reflected in operating expenses.

Results of Operations

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

	For the three months ended March 31,	
	2006	**2005**
	(in millions)	
Revenues:		
Premiums and other considerations	$ **1,041.8**	$ 934.1
Fees and other revenues	**448.8**	417.2
Net investment income	**852.2**	793.9
Net realized/unrealized capital gains (losses)	**48.9**	(1.5)
Total revenues	**2,391.7**	2,143.7
Expenses:		
Benefits, claims and settlement expenses	**1,341.8**	1,234.3
Dividends to policyholders	**71.9**	72.9
Operating expenses	**604.4**	556.9
Total expenses	**2,018.1**	1,864.1
Income from continuing operations before income taxes	**373.6**	279.6
Income taxes	**79.7**	74.7
Income from continuing operations, net of related income taxes	**293.9**	204.9
Income from discontinued operations, net of related income taxes	**—**	0.6

Net income	**293.9**	205.5
Preferred stock dividends	**8.2**	—
Net income available to common stockholders	**$ 285.7**	$ 205.5

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Premiums and other considerations increased $107.7 million, or 12%, to $1,041.8 million for the three months ended March 31, 2006, from $934.1 million for the three months ended March 31, 2005. The increase was primarily due to a $80.8 million increase from the Life and Health Insurance segment, primarily related to strong sales and stable persistency in our specialty benefits and health insurance businesses. The increase also reflected a $40.2 million increase from the U.S. Asset Management and Accumulation segment, primarily a result of 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, the interest rate environment and our ability to attract new sales.

Fees and other revenues increased $31.6 million, or 8%, to $448.8 million for the three months ended March 31, 2006, from $417.2 million for the three months ended March 31, 2005. The increase was primarily due to a $29.1 million increase from the U.S. Asset Management and Accumulation segment primarily related to an increase in account values stemming from continued strong full-service accumulation net cash flow and strong performance in the equity markets.

Net investment income increased $58.3 million, or 7%, to $852.2 million for the three months ended March 31, 2006, from $793.9 million for the three months ended March 31, 2005. The increase was primarily related to a $2,148.2 million, or 4%, increase in average invested assets and cash and an increase in average annualized yield on invested assets and cash. The yield on average invested assets and cash was 5.7% for the three months ended March 31, 2006 and 5.6% for the three months ended March 31, 2005.

Net realized/unrealized capital gains increased $50.4 million to $48.9 million of net realized/unrealized capital gains for the three months ended March 31, 2006, from $1.5 million of net realized/unrealized capital losses for the three months ended March 31, 2005. The increase is due to the gain on the sale of stock of an equity method investment, gains versus losses on the mark to market of certain seed money investments, an increase in gains on the sales of equity securities and the mark to market of the equity securities trading portfolio. These increases were offset in part by fewer gains generated on the sale and call activity of fixed maturity securities, more other than temporary declines in value of fixed maturity securities and increased losses on the mark to market of the fixed maturity securities trading portfolio.

The following table highlights the contributors to net realized/unrealized capital gains and losses for the three months ended March 31, 2006.

	For the three months ended March 31, 2006			
	Impairments and credit losses	Other gains (losses)	Hedging adjustments	Net realized/ unrealized capital gains (losses)
		(in millions)		
Fixed maturity securities(1)	**$ (8.7)**	**$ 2.2**	**$ (75.1)**	**$ (81.6)**
Fixed maturity securities, mark to market	**—**	**(3.4)**	**—**	**(3.4)**
Equity securities(2)	**—**	**8.7**	**—**	**8.7**
Mortgage loans on real estate(3)	**(0.5)**	**—**	**—**	**(0.5)**
Derivatives	**—**	**—**	**79.9**	**79.9**
Other(4)	**—**	**51.5**	**(5.7)**	**45.8**
Total	**$ (9.2)**	**$ 59.0**	**$ (0.9)**	**$ 48.9**

(1) Impairments include $8.0 million of impairment write-downs and $2.1 million in realized recoveries on the sale of previously impaired assets. Credit losses include $0.2 million in realized gains and $3.0 million in realized losses related to credit triggered sales. Other gains (losses) include $0.4 million in net losses as the result of prepayment activity, gross realized gains of $3.7 million and gross realized losses of $1.1 million.

(2) Other gains (losses) include $8.2 million in mark to market of net realized/unrealized gains on certain securities.

(3) Impairments include $2.5 million in realized losses due to the sale of commercial mortgage loans and a $2.0 million decrease in the commercial mortgage valuation allowance.

(4) Other gains (losses) include a $44.3 million realized gain on the sale of stock of an equity method investment and $7.8 million in mark to market of net realized/unrealized gains on certain seed money investments.

Benefits, claims and settlement expenses increased $107.5 million, or 9%, to $1,341.8 million for the three months ended March 31, 2006, from $1,234.3 million for the three months ended March 31, 2005. The increase was due to a $55.3 million increase from the Life and Health Insurance segment, primarily due to growth in the specialty benefits and health insurance businesses. The increase also reflected a $53.0 million increase from the U.S. Asset Management and Accumulation segment, primarily reflecting the increase in reserves resulting from an increase in sales of single premium group annuities with life contingencies.

Dividends to policyholders decreased $1.0 million, or 1%, to $71.9 million for the three months ended March 31, 2006, from $72.9 million for the three months ended March 31, 2005. The decrease was primarily due a decrease in dividends for our participating pension full-service accumulation products.

Operating expenses increased $47.5 million, or 9%, to $604.4 million for the three months ended March 31, 2006, from $556.9 million for the three months ended March 31, 2005. The increase was due to a $34.7 million increase from the Life and Health Insurance segment, primarily due to growth in the specialty benefits, insured medical, and wellness businesses. The increase also reflected a $23.4 million increase from the U.S. Asset Management and Accumulation segment, primarily due to an increase in staff related costs and sales and incentive compensation costs. Partially offsetting the increase was a $14.9 million decrease in the Corporate and Other segment primarily due to a decrease in interest expense related to a favorable court ruling on a contested Internal Revenue Service ("IRS") issue for 1991 and later years.

Income taxes increased $5.0 million, or 7%, to $79.7 million for the three months ended March 31, 2006, from $74.7 million for the three months ended March 31, 2005. The effective income tax rate was 21% for the three months ended March 31, 2006, and 27% for the three months ended March 31, 2005. The effective income tax rate for the three months ended March 31, 2006, was lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received, a favorable court ruling on a contested IRS issue for 1991and later years, and interest exclusion from taxable income. The effective income tax rate for the three months ended March 31, 2005, was lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income. The decrease in the effective tax rate to 21% for the three months ended March 31, 2006, from 27% for the three months ended March 31, 2005, was primarily due to a favorable court ruling on a contested IRS issue for 1991 and later years and tax credits on our investment in a synthetic fuel production facility in 2006.

As a result of the foregoing factors and the inclusion of income from discontinued operations for 2005, net of related income taxes, net income increased $88.4 million, or 43%, to $293.9 million for the three months ended March 31, 2006, from $205.5 million for the three months ended March 31, 2005. The income from discontinued operations for the three months ended March 31, 2005, was related to operating revenues of real estate properties that qualify for discontinued operations treatment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

Preferred stock dividends were $8.2 million for the three months ended March 31, 2006, with no corresponding activity for the three months ended March 31, 2005.

Net income available to common stockholders increased $80.2 million, or 39%, to $285.7 million for the three months ended March 31, 2006, from $205.5 million for the three months ended March 31, 2005.

Results of Operations by Segment

We use segment operating earnings, which exclude the effect of net realized/unrealized capital gains and losses, as adjusted, and other after-tax adjustments, for goal setting, determining employee compensation, and evaluating performance on a basis comparable to that used by securities analysts. Segment operating earnings are determined by adjusting U.S. GAAP net income available to common stockholders for net realized/unrealized capital gains and losses, as adjusted, and other after-tax adjustments we believe are not indicative of overall operating trends. Note that after-tax adjustments have occurred in the past and could recur in future reporting periods. 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, ongoing operations of our businesses.

The following table presents segment information as of or for the periods indicated:

	For the three months ended March 31, 2006	2005
	(in millions)	
Operating revenues by segment		
U.S. Asset Management and Accumulation	**$ 1,049.8**	$ 957.3
International Asset Management and Accumulation	**143.4**	132.8
Life and Health Insurance	**1,159.6**	1,068.6
Corporate and Other(1)	**(9.7)**	(10.1)
Total segment operating revenues	**2,343.1**	2,148.6
Add:		
Net realized/unrealized capital gains (losses), including recognition of front-end fee revenues and certain market value adjustments to fee revenues(2)	**48.6**	(4.0)
Subtract:		
Operating revenues from discontinued real estate	¾	0.9
Total revenue per consolidated statements of operations	**$ 2,391.7**	$ 2,143.7
Operating earnings (loss) by segment, net of related income taxes:		
U.S. Asset Management and Accumulation	**$ 157.8**	$ 138.6
International Asset Management and Accumulation	**17.6**	9.5
Life and Health Insurance	**70.4**	69.5
Corporate and Other	**(5.6)**	(8.4)
Total segment operating earnings, net of related income taxes	**240.2**	209.2
Net realized/unrealized capital gains (losses), as adjusted(2)	**24.9**	(3.7)
Other after-tax adjustments(3)	**20.6**	¾
Net income available to common stockholders per consolidated statements of operations	**$ 285.7**	$ 205.5
	March 31, 2006	**December 31, 2005**
Assets by segment:		
U.S. Asset Management and Accumulation(4)	**$ 108,307.9**	$ 103,506.1
International Asset Management and Accumulation	**6,978.7**	6,856.2
Life and Health Insurance	**14,090.4**	14,080.2
Corporate and Other(5)	**2,597.5**	2,592.9
Total consolidated assets	**$ 131,974.5**	$ 127,035.4

(1) Includes inter-segment eliminations primarily related to internal investment management fee revenues and commission fee revenues paid to U.S. Asset Management and Accumulation agents for selling Life and Health Insurance segment insurance products.

(2) In addition to sales activity and other than temporary impairments, net realized/unrealized capital gains (losses) include unrealized gains (losses) on mark to market changes in certain seed money investments and investments classified as trading securities, as well as unrealized gains (losses) on certain derivatives. Net realized/unrealized capital gains (losses), as adjusted, are net of income taxes, net realized capital gains and losses distributed, minority interest capital gains and losses, related changes in the amortization pattern of deferred policy acquisition and sales inducement costs, recognition of front-end fee revenues for sales charges on pension products and services and certain market value adjustments to fee revenues.

	For the three months March 31, 2006	2005
Net realized/unrealized capital gains (losses)	$ **48.9**	$ (1.5)
Certain market value adjustments to fee revenues	**(0.9)**	(2.9)
Recognition of front-end fee revenues	**0.6**	0.4
Net realized/unrealized capital gains (losses), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**48.6**	(4.0)
Amortization of deferred policy acquisition and sales inducement costs related to net realized capital gains (losses)	**(0.6)**	0.5
Capital gains distributed	**(3.6)**	(1.4)
Minority interest capital gains	**(3.6)**	¾
Net realized/unrealized capital gains (losses), including recognition of front-end fee revenues and certain market value adjustments to fee revenues, net of related amortization of deferred policy acquisition costs and sales inducement costs, capital gains distributed, and minority interest capital gains	**40.8**	(4.9)
Income tax effect	**(15.9)**	1.2
Net realized/unrealized capital gains (losses), as adjusted	$ **24.9**	$ (3.7)

(3) For the three months ended March 31, 2006, other after-tax adjustments of $20.6 million included the positive effect of a favorable court ruling on a contested IRS issue for 1991 and later years.

(4) U.S. Asset Management and Accumulation separate account assets include shares of the Principal Financial Group stock allocated to a separate account, a result of our demutualization. The value of the separate account was $713.1 million and $726.6 million at March 31, 2006 and December 31, 2005, respectively. Changes in the fair value of the separate account are reflected in both separate account assets and separate account liabilities.

(5) Includes inter-segment elimination amounts related to an internal line of credit, internally generated mortgage loans, and an internal cash advance arrangement. The Corporate and Other segment managed a revolving line of credit used by other segments. 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. The Corporate and Other segment managed a cash advance arrangement used by other segments.

U.S. Asset Management and Accumulation Segment

U.S. Asset Management and Accumulation Segment Summary Financial Data

The following table 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, 2006	2005
	(in millions)	
Operating Earnings Data:		
Operating revenues(1):		
Premiums and other considerations	$ **98.8**	$ 58.6
Fees and other revenues	**322.9**	296.0
Net investment income	**628.1**	602.7
Total operating revenues	**1,049.8**	957.3
Expenses:		
Benefits, claims and settlement expenses, including dividends to policyholders	**551.5**	499.6
Operating expenses	**298.5**	279.3
Total expenses	**850.0**	778.9
Operating earnings before income taxes	**199.8**	178.4
Income taxes	**42.0**	39.8
Operating earnings	**157.8**	138.6
Net realized/unrealized capital gains (losses), as adjusted	**(3.3)**	2.4
U.S. GAAP Reported:		

Net income available to common stockholders	$	**154.5**	$	141.0

(1) Excludes net realized/unrealized capital gains (losses) and their impact on recognition of front-end fee revenues and certain market value adjustments to fee revenues.

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Premiums and other considerations increased $40.2 million, or 69%, to $98.8 million for the three months ended March 31, 2006, from $58.6 million for the for the three months ended March 31, 2005. The increase primarily resulted from a $30.2 million increase in full-service payout sales of single premium group annuities with life contingencies, which are typically used to fund defined benefit plan terminations. The premium income received from these contracts fluctuates due to the variability in the number and size of pension plan terminations, the interest rate environment and the ability to attract new sales. In addition, individual payout annuity premiums and other considerations increased $10.0 million due to increased sales from certain distribution channels.

Fees and other revenues increased $26.9 million, or 9%, to $322.9 million for the three months ended March 31, 2006, from $296.0 million for the three months ended March 31, 2005. Full-service accumulation fees and other revenues increased $22.4 million primarily due to an increase in account values stemming from continued strong net cash flow and strong performance in the equity markets.

Net investment income increased $25.4 million, or 4%, to $628.1 million for the three months ended March 31, 2006, from $602.7 million for the three months ended March 31, 2005. The increase reflects a $1,213.8 million, or 3%, increase in average invested assets and cash for the segment. The average annualized yield on invested assets and cash was 5.7% for the three months ended March 31, 2006 and 2005.

Benefits, claims and settlement expenses, including dividends to policyholders, increased $51.9 million, or 10%, to $551.5 million for the three months ended March 31, 2006, from $499.6 million for the for the three months ended March 31, 2005. The increase primarily resulted from a $29.6 million increase in our full-service payout business as a result of increased sales of single premium group annuities with life contingencies. Also contributing to the increase was a $14.2 million increase in

our individual annuity business due to several factors, including: an increase in cost of interest credited, higher benefit payments, and an increase in reserves stemming from an increase in sales related to our life payout annuity business. Furthermore, our investment-only benefits, claims and settlement expenses increased $12.7 million primarily due to an increase in cost of interest credited on this block of business as a result of an increase in account values.

Operating expenses increased $19.2 million, or 7%, to $298.5 million for the three months ended March 31, 2006, from $279.3 million for the three months ended March 31, 2005. The increase primarily resulted from a $13.4 million increase in full-service accumulation operating expenses due to an increase in staff related costs and an increase in sales and incentive compensation costs. In addition, individual annuity operating expenses increased $3.2 million primarily due to growth in the block of business and an increase in staff related costs.

Income taxes increased $2.2 million, or 6%, to $42.0 million for the three months ended March 31, 2006, from $39.8 million for the for the three months ended March 31, 2005. The effective income tax rate for this segment was 21% and 22% for the three months ended March 31, 2006 and 2005, respectively. The effective income tax rates for the years ended March 31, 2006 and 2005, were lower than the corporate income tax rate of 35%, as a result of income tax deductions allowed for corporate dividends received and interest exclusion from taxable income.

As a result of the foregoing factors, operating earnings increased $19.2 million, or 14%, to $157.8 million for the three months ended March 31, 2006, from $138.6 million for the for the three months ended March 31, 2005.

Net realized/unrealized capital losses, as adjusted, increased $5.7 million to $3.3 million of net realized/unrealized losses for the three months ended March 31, 2006, from $2.4 million net realized/unrealized capital gains for the three months ended March 31, 2005. The increase is due to losses versus gains on the sale and call activity of fixed maturity securities and higher other than temporary impairments of fixed maturity securities offset in part by fewer losses on commercial mortgage loans.

As a result of the foregoing factors for the three months ended March 31, 2006, net income available to common stockholders increased $13.5 million, or 10%, to $154.5 million from $141.0 million for the three months ended March 31, 2005.

International Asset Management and Accumulation Segment

International Asset Management and Accumulation Segment Summary Financial Data

The following table presents certain summary financial data of the International Asset Management and Accumulation segment for the periods indicated:

	For the three months ended March 31,			
	2006		2005	
	(in millions)			
Operating Earnings Data:				
Operating revenues(1):				
Premiums and other considerations	$	**69.0**	$	82.1
Fees and other revenues		**28.2**		22.6
Net investment income		**46.2**		28.1
Total operating revenues		**143.4**		132.8
Expenses:				

	2006	2005
Benefits, claims and settlement expenses	**93.0**	94.6
Operating expenses	**30.5**	26.2
Total expenses	**123.5**	120.8
Operating earnings before income taxes	**19.9**	12.0
Income taxes	**2.3**	2.5
Operating earnings	**17.6**	9.5
Net realized/unrealized capital gains (losses), as adjusted	**0.9**	(0.7)
U.S. GAAP Reported:		
Net income available to common stockholders	**$ 18.5**	$ 8.8

(1) Excludes net realized/unrealized capital gains (losses).

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Premiums and other considerations decreased $13.1 million, or 16%, to $69.0 million for the three months ended March 31, 2006, from $82.1 million for the for the three months ended March 31, 2005. A decrease of $19.1 million in Chile and Mexico due to decreased sales of single premium annuities with life contingencies was partially offset by an increase of $6.1 million due to the strengthening of the Chilean and Mexican peso versus the U.S. dollar.

Fees and other revenues increased $5.6 million, or 25%, to $28.2 million for the three months ended March 31, 2006, from $22.6 million for the three months ended March 31, 2005. An increase of $1.9 million in Mexico was primarily due to improved net transfers of pension customers from competitors and the strengthening of the peso versus the U.S. dollar. An increase of $1.7 million in India was a result of an increase in fees from PPIAC that began operations in February 2005 and an increase in fees from growth in assets under management. In addition, an increase of $1.1 million in Hong Kong was a result of increased fees caused by growth in assets under management.

Net investment income increased $18.1 million, or 64%, to $46.2 million for the three months ended March 31, 2006, from $28.1 million for the three months ended March 31, 2005. The increase was primarily due to higher earnings from our equity investments in subsidiaries coupled with an increase in the annualized yield on average invested assets and cash, excluding our equity investments in subsidiaries, which was 5.0% for the three months ended March 31, 2006, compared to 4.1% for the three months ended March 31, 2005. In addition, the increase was related to an increase of $484.4 million, or 20%, in average invested assets and cash, excluding our equity investments in subsidiaries.

Benefits, claims and settlement expenses decreased $1.6 million, or 2%, to $93.0 million for the three months ended March 31, 2006, from $94.6 million for the three months ended March 31, 2005. A decrease of $2.0 million in Chile was the result of lower change in reserves due to a decrease in sales of single premium annuities with life contingencies in 2006 partially offset by higher interest credited to customers and the strengthening of the peso versus the U.S. dollar.

Operating expenses increased $4.3 million, or 16%, to $30.5 million for the three months ended March 31, 2006, from $26.2 million for the three months ended March 31, 2005. An increase of $1.7 million in India was due to higher compensation costs in the asset management company coupled with costs from PPIAC, which started operations in February 2005. An increase of $1.2 million in Chile and Mexico was the result of the strengthening of the Chilean and Mexican peso versus the U.S. dollar. In addition, an increase of $1.0 million at International headquarters was due to increased overhead allocated from the parent.

Income taxes decreased $0.2 million, or 8%, to $2.3 million for the three months ended March 31, 2006, from $2.5 million for the three months ended March 31, 2005. A decrease of $0.6 million at International headquarters was primarily due to higher pre-tax losses. Partially offsetting the reduction in income taxes is an increase due to higher aggregate pre-tax earnings in 2006 for our international operating companies.

As a result of the foregoing factors, operating earnings increased $8.1 million, or 85%, to $17.6 million for the three months ended March 31, 2006, from $9.5 million for the three months ended March 31, 2005.

Net realized/unrealized capital gains, as adjusted, increased $1.6 million to $0.9 million of net realized/unrealized gains for the three months ended March 31, 2006, from $0.7 million of net realized/unrealized capital losses for the three months ended March 31, 2005. The increase was primarily related to a $1.5 million increase in Chile due to gains on derivatives in 2006 compared to losses on derivatives in 2005 that are held to more effectively match the invested asset portfolio to our policyholder liability risks.

As a result of the foregoing factors, net income available to common stockholders increased $9.7 million to $18.5 million for the three months ended March 31, 2006, from $8.8 million for the three months ended March 31, 2005.

Life and Health Insurance Segment

Life and Health Insurance Segment Summary Financial Data

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

	For the three months ended March 31,	
	2006	**2005**
	(in millions)	
Operating Earnings Data:		
Operating revenues(1):		
Premiums and other considerations	**$ 872.9**	$ 792.1
Fees and other revenues	**113.3**	111.9
Net investment income	**173.4**	164.6

Total operating revenues	**1,159.6**	1,068.6
Expenses:		
Benefits, claims and settlement expenses	**698.3**	643.0
Dividends to policyholders	**71.9**	71.9
Operating expenses	**283.4**	249.1
Total expenses	**1,053.6**	964.0
Operating earnings before income taxes	**106.0**	104.6
Income taxes	**35.6**	35.1
Operating earnings	**70.4**	69.5
Net realized/unrealized capital gains (losses), as adjusted	**0.2**	(0.7)
U.S. GAAP Reported:		
Net income available to common stockholders	**$ 70.6**	$ 68.8

(1) Excludes net realized/unrealized capital gains (losses).

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Premiums and other considerations increased $80.8 million, or 10%, to $872.9 million for the three months ended March 31, 2006, from $792.1 million for the three months ended March 31, 2005. Specialty benefits insurance premiums increased $46.3 million, primarily due to strong sales and steady retention. In addition, health insurance premiums increased $45.0 million, also primarily from strong sales and improved retention as well as a modestly higher premium per member.

Fees and other revenues increased $1.4 million, or 1%, to $113.3 million for the three months ended March 31, 2006, from $111.9 million for the three months ended March 31, 2005. Fee revenues from our individual life insurance business increased $0.9 million, primarily due to growth in our fee-based universal and variable universal life insurance business. Fee revenues from our health insurance business increased $0.4 million, primarily due to growth in our wellness business.

Net investment income increased $8.8 million, or 5%, to $173.4 million for the three months ended March 31, 2006, from $164.6 million for the three months ended March 31, 2005. The increase primarily relates to a $314.0 million, or 3%, increase in average invested assets and cash for the segment and an increase in the average annualized yield on invested assets and cash. The average annualized yield on invested assets and cash was 6.3% for the three months ended March 31, 2006, compared to 6.2% for the three months ended March 31, 2005.

Benefits, claims and settlement expenses increased $55.3 million, or 9%, to $698.3 million for the three months ended March 31, 2006, from $643.0 million for the three months ended March 31, 2005. Health insurance benefits, claims and settlement expenses increased $36.7 million primarily due to growth in the business and higher claim costs per member. Despite lower loss ratios, specialty benefits insurance benefits, claims and settlement expenses increased $25.1 million, primarily due to growth in the business.

Operating expenses increased $34.3 million, or 14%, to $283.4 million for the three months ended March 31, 2006, from $249.1 million for the three months ended March 31, 2005. Specialty benefits insurance operating expenses increased $14.6 million due to growth in the business. Health insurance operating expenses increased $12.9 million, primarily due to growth in the insured medical and wellness businesses.

Income taxes increased $0.5 million, or 1%, to $35.6 million for the three months ended March 31, 2006, from $35.1 million for the three months ended March 31, 2005. The effective income tax rate for the segment was 34% for the three months ended March 31, 2006 and 2005. The effective income tax rates for the three months ended March 31, 2006 and 2005, were lower than the corporate income tax rate of 35% primarily due to the interest exclusion from taxable income.

As a result of the foregoing factors, operating earnings increased $0.9 million, or 1%, to $70.4 million for the three months ended March 31, 2006, from $69.5 million for the three months ended March 31, 2005.

Net realized/unrealized capital gains, as adjusted, increased $0.9 million to $0.2 million of net realized/unrealized capital gains for the three months ended March 31, 2006, from $0.7 million of net realized/unrealized capital losses for the three months ended March 31, 2005 due to more gains on the sale of fixed maturity securities, gains versus losses on the sale of fixed assets, and fewer losses related to the mark to market of derivative activities partly offset by more other than temporary impairments of fixed maturity securities.

As a result of the foregoing factors, net income available to common stockholders increased $1.8 million, or 3%, to $70.6 million for the three months ended March 31, 2006, from $68.8 million for the three months ended March 31, 2005.

Corporate and Other Segment

Corporate and Other Segment Summary Financial Data

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

	For the three months ended March 31,	
	2006	**2005**
	(in millions)	

Operating Earnings Data:		
Operating Revenues (1):		
Total operating revenues	$ **(9.7)**	$ (10.1)
Expenses:		
Total expenses	**(4.7)**	(0.5)
Operating loss before income taxes and preferred stock dividends	**(5.0)**	(9.6)
Income tax benefits	**(7.6)**	(1.2)
Preferred stock dividends	**8.2**	—
Operating loss	**(5.6)**	(8.4)
Net realized/unrealized capital gains (losses), as adjusted	**27.1**	(4.7)
Other after-tax adjustments	**20.6**	—
U.S. GAAP Reported:		
Net income (loss) available to common stockholders	$ **42.1**	$ (13.1)

(1) Excludes net realized/unrealized capital gains (losses).

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Total operating revenues increased $0.4 million, or 4%, to negative $9.7 million for the three months ended March 31, 2006, from negative $10.1 million for the three months ended March 31, 2005. Net investment income increased $5.0 million reflecting an increase in average annualized investment yields as well as an increase in average invested assets for the segment. Partially offsetting the increase in total revenues was a decrease of $3.3 million in fee revenue for transitional services provided to CitiMortgage, Inc., in the prior year, related to the sale of Principal Residential Mortgage, Inc., which was mostly offset by a corresponding change in total expense.

Total expenses decreased $4.2 million to negative $4.7 million for the three months ended March 31, 2006, from negative $0.5 million for the three months ended March 31, 2005. The decrease in total expenses was primarily due to a $3.2 million decrease in transitional services provided to CitiMortgage, Inc., in the prior year, related to the sale of Principal Residential Mortgage, which was mostly offset in total revenue.

Income tax benefits increased $6.4 million to $7.6 million for the three months ended March 31, 2006, from $1.2 million for the three months ended March 31, 2005. The increase was primarily due to an increase in the estimated Section 29 tax credits from our investment in a synthetic fuel production facility in 2006 as well as a 2005 increase in income tax reserves established for contested IRS tax audit matters.

Preferred stock dividends were $8.2 million for the three months ended March 31, 2006, with no corresponding activity for the three months ended March 31, 2005. The preferred stock dividends were a result of issuing preferred stock in June 2005.

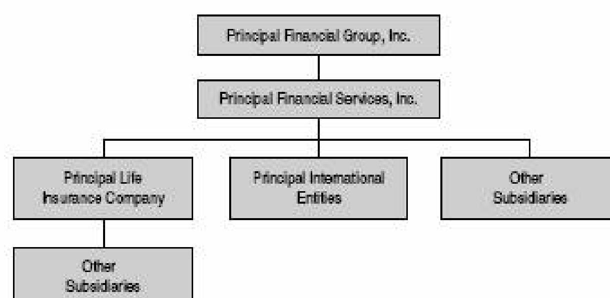
As a result of the foregoing factors, operating loss decreased $2.8 million, or 33%, to $5.6 million for the three months ended March 31, 2006, from $8.4 million for the three months ended March 31, 2005.

Net realized/unrealized capital gains, as adjusted, increased $31.8 million to $27.1 million of net realized/unrealized capital gains for the three months ended March 31, 2006, from $4.7 million net realized/unrealized capital losses for the three months ended March 31, 2005. The increase was primarily due to the gain on sale of stock of an equity method investment as well as gains on mark to market of certain seed money investments.

As a result of the foregoing factors and the inclusion of other after-tax adjustments, net income available to common stockholders increased $55.2 million to $42.1 million for the three months ended March 31, 2006, from $13.1 million of net loss for the three months ended March 31, 2005. For the three months ended March 31, 2006, net income included the positive effect of other after-tax adjustments totaling $20.6 million related to a favorable court ruling on a contested IRS issue for 1991 and later years.

Liquidity and Capital Resources

Our legal entity organizational structure has an impact on our ability to meet cash flow needs as an organization. Following is a simplified organizational structure.



Dividends from Principal Life

The payment of stockholder dividends by Principal Life to its parent company is limited by Iowa laws. Under Iowa laws, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa (“the Commissioner”) to pay 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 statutory policyholder surplus as of the previous year-end; or

- the statutory net gain from operations from the previous calendar year.

Iowa law gives the Commissioner discretion to disapprove requests for dividends in excess of these limits. Based on this limitation and 2005 statutory results, Principal Life could pay approximately $630.7 million in stockholder dividends in 2006 without exceeding the statutory limitation.

On February 28, 2006, Principal Life declared a common stock dividend to its parent company of up to $625.0 million, $425.0 million of which has been paid as of March 31, 2006.

Shelf Registration

Registration Statement. Although we generate adequate cash flow to meet the needs of our normal operations, periodically the need may arise to issue debt to fund internal expansion, acquisitions, investment opportunities and retirement of existing debt and equity. In December 2003, we filed a shelf registration statement with the SEC, which became effective on June 30, 2004. The shelf registration totals $3.0 billion, with the ability to issue debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of Principal Financial Group, Inc ("PFG") and trust preferred securities of three subsidiary trusts. If we issue additional securities, we intend to use the proceeds from the sale of the securities for general corporate purposes, including working capital, capital expenditures, investments in subsidiaries, share repurchase, acquisitions and refinancing of debt, including commercial paper and other short-term indebtedness. Principal Financial Services, Inc. unconditionally guarantees our obligations with respect to one or more series of debt securities described in the shelf registration statement.

Preferred Stock Issuances. On June 16, 2005, we issued 13.0 million shares of non-cumulative perpetual preferred stock under our shelf registration for net proceeds of $542.0 million. Substantially all of the preferred securities proceeds were used to repurchase shares of outstanding common stock. Following our issuance of perpetual preferred stock, we now have the

ability to issue up to $2.45 billion of debt securities, preferred stock, common stock, warrants, stock purchase contracts and stock purchase units of PFG and trust preferred securities of three subsidiary trusts, under the shelf registration.

Preferred Stock Dividend Restrictions and Payments. The certificates of designations for the preferred stock restrict the declaration of preferred dividends if we fail to meet specified capital adequacy, net income or stockholders' equity levels. As of March 31, 2006, we have no preferred dividend restrictions.

On March 30, 2006, we paid a dividend of $8.2 million, equal to $1.39 per share on Series A non-cumulative perpetual preferred stock and equal to $0.41 per share on Series B non-cumulative perpetual preferred stock, to stockholders of record as of March 15, 2006.

Common Stock Issued and Treasury Stock Acquired

Our Board of Directors has authorized various repurchase programs under which we are allowed to purchase shares of our outstanding common stock. Shares repurchased under these programs are accounted for as treasury stock, carried at cost and reflected as a reduction to stockholders' equity. The repurchases are made in the open market or through privately negotiated transactions, from time to time, depending on market conditions.

In November 2005, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock. As of March 31, 2006, we acquired 3.4 million shares in the open market at an aggregate cost of $162.3 million.

International Asset Management and Accumulation Operations

Our Brazilian, Hong Kong, Chilean, and Mexican operations produced positive cash flow from operations for the three months ended March 31, 2006 and 2005. These cash flows have been historically maintained at the local country level for strategic expansion purposes and local capital requirements. Our international operations have required infusions of capital primarily to fund acquisitions and to a lesser extent, to meet the cash flow and capital requirements of certain operations. 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. Based on reviews of our current capital needs and strategic opportunities within our foreign operations, we have repatriated and will continue to repatriate a portion of the capital from certain countries in 2006.

Sources and Uses of Cash of Consolidated Operations

Activity, as reported in our consolidated statements of cash flows, provides relevant information regarding our sources and uses of cash. The following discussion of our operating, investing and financing portions of the cash flows excludes cash flows attributable to our discontinued operations, which were as follows:

	For the three months ended March 31,	
	2006	2005
	(in millions)	
Cash flows attributable to discontinued operations:		
Net cash provided by operating activities	$ —	$ 1.7
Net cash used in investing activities	—	—
Net cash provided by (used in) financing activities	—	—

Net cash provided by operating activities was $425.4 million for the three months ended March 31, 2006 compared to net cash used in operating activities of $78.2 million for the three months ended March 31, 2005. The increase in cash provided by operations was primarily related to the payment in 2005 of an IRS deficiency related to the examination for 1999 – 2001.

Net cash used in investing activities was $987.6 million and $299.4 million for the three months ended March 31, 2006 and 2005, respectively. The increase in cash used in investing activities between periods was primarily related to an increase in acquisitions, a decrease in the sales, and fewer maturities of

available for sale securities. This increase in cash used in investing activities was partially offset by an increase in net mortgage loans sold as well as a sale of stock of an equity method investment in 2006.

Net cash provided by financing activities was $529.1 million and $471.9 million for the three months ended March 31, 2006 and 2005, respectively. The increase in cash provided by financing activities reflects an increase in net deposits of

investment contracts. This increase was partially offset by a reduction of short-term debt proceeds in the current year. In the first quarter of 2005, short term debt was issued to fund the IRS deficiency.

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

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is a measure of our ability to cover fixed costs with current period earnings. A high ratio indicates that earnings are sufficiently covering committed expenses. The following table sets forth, for the years indicated, our ratios of:

- earnings to fixed charges before interest credited on investment products; and

- earnings to fixed charges.

We calculate the ratio of "earnings to fixed charges before interest credited on investment products" by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) by the sum of interest expense (I), interest factor of rental expense (IF) and dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D). The formula for this ratio is: (BT+I+IF-E)/(I+IF+D).

We calculate the ratio of "earnings to fixed charges" by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) and the addition of interest credited on investment products (IC) by interest expense (I), interest factor of rental expense (IF), dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D) and interest credited on investment products (IC). The formula for this calculation is: (BT+I+IF-E+IC)/(I+IF+D+IC). "Interest credited on investment products" includes interest paid on guaranteed investment contracts, funding agreements and other investment-only pension products. Similar to debt, these products have a total fixed return and a fixed maturity date.

	For the three months ended March 31,		For the year ended December 31,		
	2006	2005	2005	2004	2003
Ratio of earnings to fixed charges before interest credited on investment products	**12.6**	14.4	11.1	9.5	7.5
Ratio of earnings to fixed charges	**2.4**	2.2	2.1	2.0	1.9

Contractual Obligations and Commercial Commitments

As of March 31, 2006 we had $893.6 million of long-term debt outstanding compared to $898.8 million at December 31, 2005. There have been no significant changes to contractual obligations and commitments since December 31, 2005.

Short-Term Debt

As of March 31, 2006, we had credit facilities with various financial institutions in an aggregate amount of $894.9 million. As of March 31, 2006 we had $396.4 million of outstanding borrowings related to our credit facilities with $264.1 million of assets pledged as support, compared to $476.4 million of outstanding borrowings at December 31, 2005 with $110.6 million of assets pledged as support. Assets pledged consisted primarily of commercial mortgages and securities. Our credit facilities also include a $600.0 million back-stop facility to provide 100% support for our commercial paper program, of which there were no outstanding balances as of March 31, 2006.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to a former subsidiary, joint ventures and industrial revenue bonds. These agreements generally expire from 2005 through 2019. The maximum exposure under these agreements as of March 31, 2006, was approximately $174.0 million; however, we believe the likelihood is remote that material payments will be required and therefore have not accrued for a liability on our consolidated statements of financial position. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event that performance is required under the guarantees or other recourse generally available to us, therefore, such guarantees would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such guarantees is not material.

In connection with the 2002 sale of BT Financial Group, we agreed to indemnify the purchaser, Westpac Banking Corporation ("Westpac"), for among other things, the costs associated with potential late filings made by BT Financial Group in New Zealand prior to Westpac's ownership, up to a maximum of A$250.0 million Australian dollars (approximately U.S. $179.0 million as of March 31, 2006). New Zealand securities regulations allow Australian issuers to issue their securities in New Zealand provided that certain documents are appropriately filed with the New Zealand Registrar of Companies. Specifically, the regulations require that any amendments to constitutions and compliance plans be filed in New Zealand. In April 2003, the

New Zealand Securities Commission opined that such late filings would result in certain New Zealand investors having a right to return of their investment plus interest at 10% per annum from the date of investment. This technical issue affected many in the industry.

On December 24, 2004, Westpac lodged several warranty and indemnification claims related to the sale of BT Financial Group. The claims aggregated approximately A$50.0 million Australian dollars (approximately U.S. $36.0 million as of March 31, 2006) with the majority of the claims (approximately A$45.0 million Australian dollars, or U.S. $32.0 million as of March 31, 2006) related to fund pricing and accounting issues around a tax asset called future income tax benefit ("FITB"). FITB is an asset used in calculating unit pricing of funds. Westpac claimed that BT Financial Group incorrectly accrued FITB assets in valuing asset portfolios of BT funds in Australia and New Zealand and that as a result fund values were overstated.

The claims made by Westpac related to both indemnifications were settled and paid by us in 2006. This settlement did not have a material impact on net income.

We are also subject to various other indemnification obligations issued in conjunction with certain transactions, primarily the sale of Principal Residential Mortgage, Inc., and other divestitures, acquisitions and financing transactions

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whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe the likelihood is remote that material payments would be required under such indemnifications and therefore such indemnifications would not result in a material adverse effect on our business or financial position. It is possible that such outcomes could materially affect net income in a particular quarter or annual period. The fair value of such indemnifications is not material.

Investments

We had total consolidated assets as of March 31, 2006, of $132.0 billion, of which $57.9 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, $54.8 billion were held by our U.S. operations and the remaining $3.1 billion were held by our International Asset Management and Accumulation segment.

U.S. Investment Operations

Our U.S. invested assets are managed by Principal Global Investors, 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, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding $500.0 million. As of March 31, 2006, there are ten members on the Investment Committee, one of whom is a member of our Board of Directors. The remaining members are senior management members representing various areas of our company.

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. We assess option risk in all investments we make and, when we take that risk, we price for it accordingly.

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 of security analysts organized by industry focus either on the public or private markets and analyze and monitor these investments. In addition, we have teams who specialize in residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, and public below investment grade securities. 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 one year unless removed by our analysts. Our analysts monitor issuers on the list on a continuous basis with a formal review documented annually or more frequently if material events affect the issuer. The analysis includes both fundamental and technical factors. The fundamental analysis encompasses both quantitative and qualitative analysis of the issuer.

The qualitative analysis includes an assessment of both accounting and management aggressiveness. In addition, technical indicators such as stock price volatility and credit default swap levels are monitored.

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

- material 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. The weighted average loan-to-value ratio at origination for brick and mortar commercial mortgages in our portfolio was 67% and the debt service coverage ratio at loan inception was 1.7 times as of March 31, 2006.

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, 2006.

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 Item 3, "Quantitative and Qualitative Disclosures about Market Risk".

Overall Composition of U.S. Invested Assets

U.S. invested assets as of March 31, 2006, were predominantly of high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of U.S. invested assets are fixed maturity securities and commercial mortgages. The remainder is invested in real estate, residential mortgage loans, equity securities and other assets. In addition, policy loans are included in our invested assets. The following discussion analyzes the composition of U.S. invested assets, but excludes invested assets of the participating separate accounts.

U.S. Invested Assets

	March 31, 2006		December 31, 2005	
	Carrying Amount	% of Total	Carrying Amount	% of Total
	($ in millions)			
Fixed maturity securities:				
Public	**$ 28,146.6**	**51%**	$ 27,826.3	51%
Private	**12,439.7**	**23**	12,289.4	23
Equity securities	**767.6**	**1**	764.0	1
Mortgage loans:				
Commercial	**9,755.5**	**18**	9,890.7	18
Residential	**1,065.8**	**2**	1,088.5	2
Real estate held for sale	**137.9**	**—**	133.8	—
Real estate held for investment	**860.4**	**2**	853.9	2
Policy loans	**838.0**	**2**	827.7	2
Other investments	**797.9**	**1**	755.3	1
Total invested assets	**54,809.4**	**100%**	54,429.6	100%
Cash and cash equivalents	**1,555.9**		1,585.1	
Total invested assets and cash	**$ 56,365.3**		$ 56,014.7	

U.S. Investment Results

The following tables present the yield and investment income, excluding net realized/unrealized gains and losses for our U.S. invested assets. The annualized yield on U.S. invested assets and on cash and cash equivalents was 5.7% for the three months ended March 31, 2006, compared to 5.6% for the three months ended March 31, 2005. We calculate annualized yields using a simple average of asset classes at the beginning and end of the reporting period.

U.S. Invested Assets
Investment Income Yields by Asset Type

	For the three months ended March 31,			
	2006		2005	
	Yield	Amount	Yield	Amount
	($ in millions)			
Fixed maturity securities	**5.9%**	**$ 597.8**	5.8%	$ 570.1
Equity securities	**6.2**	**11.9**	6.4	11.7
Mortgage loans — commercial	**6.5**	**160.6**	6.6	168.1

Mortgage loans — residential	**4.9**	**13.3**	4.5	12.6
Real estate	**6.7**	**16.6**	5.0	11.8
Policy loans	**5.9**	**12.2**	6.1	12.5
Cash and cash equivalents	**2.6**	**10.4**	4.5	4.7
Other investments	**7.8**	**15.1**	2.2	6.9
Total before investment expenses	**5.9**	**837.9**	5.8	798.4
Investment expenses	**0.2**	**31.9**	0.2	32.6
Net investment income	**5.7%**	**$ 806.0**	5.6%	$ 765.8

Fixed Maturity Securities

Fixed maturity securities consist of short-term investments, publicly traded debt securities, privately placed debt securities and redeemable preferred stock, and represented 74% of total U.S. invested assets as of March 31, 2006 and December 31, 2005. The fixed maturity securities portfolio was comprised, based on carrying amount, of 69% in publicly traded fixed maturity securities and 31% in privately placed fixed maturity securities as of March 31, 2006 and December 31, 2005. Included in the privately placed category as of March 31, 2006, and December 31, 2005, were $6.6 billion and $6.5 billion, respectively, 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, 2006, and December 31, 2005, as shown in the following table:

U.S. Invested Assets
Fixed Maturity Securities by Type of Issuer

	March 31, 2006		December 31, 2005	
	Carrying Amount	% of Total	Carrying Amount	% of Total
	($ in millions)			
U.S. Government and agencies	**$ 568.7**	**1%**	$ 555.5	1%
States and political subdivisions	**1,308.6**	**3**	1,283.4	3
Non-U.S. governments	**444.7**	**1**	463.0	1
Corporate — public	**19,651.9**	**49**	19,590.8	49
Corporate — private	**9,890.7**	**24**	9,901.5	25
Residential pass-through securities	**1,488.8**	**4**	1,526.0	4
Commercial mortgage-backed securities	**4,313.9**	**11**	4,118.6	10
Residential collateralized mortgage obligations	**913.9**	**2**	752.5	2
Asset-backed securities	**2,005.1**	**5**	1,924.4	5
Total fixed maturities	**$ 40,586.3**	**100%**	$ 40,115.7	100%

We held $8,721.7 million of mortgage-backed and asset-backed securities as of March 31, 2006, and $8,321.5 million as of December 31, 2005.

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

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 (“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. 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. 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.

The international exposure in our U.S. fixed maturity securities totaled $7,693.6 million, or 19% of total fixed maturity securities, as of March 31, 2006, comprised of corporate and foreign government fixed maturity securities. Of the $7,693.6 million as of March 31, 2006, investments totaled $2,099.8 million in the United Kingdom, $1,956.8 million in the continental European Union, $898.4 million in Asia, $717.4 million in Australia, $497.3 million in South America, $297.6 million in Mexico and $100.4 million in Japan. The remaining $1,125.9 million is invested in 17 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 18% of total statutory general account assets with a 4% limit in emerging markets. Exposure to Canada is not included in our international exposure. As of March 31, 2006, our investments in Canada totaled $1,414.9 million.

The following tables present the amortized cost of our top ten exposures including approved counterparty exposure limits as of March 31, 2006, and December 31, 2005.

	March 31, 2006 Amortized Cost (in millions)
HSBC Holdings PLC(1)	**$ 380.9**
Bank of America Corp.(3)	**347.3**
American International Group Inc.(3)	**321.9**
MBIA Inc.(2)	**315.9**
JP Morgan Chase & Co.(3)	**309.0**
Royal Bank of Scotland Group PLC(3)	**306.6**
General Electric Co	**257.3**
Citigroup Inc.(3)	**217.1**
Verizon Communications Inc.	**203.4**
AT&T Inc.	**197.2**
Total top ten exposures	**$ 2,856.6**

(1) Includes a $238.2 million investment classified as an equity security for U.S. GAAP. The investment issuer engages in managing investment grade third party bond investments and HSBC paper. All non-HSBC paper has the ultimate benefit of price support protection provided by HSBC Bank, PLC. Since Principal Life Insurance Company has the senior priority in the issuer, we believe many third party bonds could be liquidated to satisfy our claim. While we calculate our exposure on a gross basis, the value we attribute to the underlying collateral is $125.0 million.

(2) MBIA Inc. exposure is predominately comprised of the guarantee of underlying securities that are rated “A-” equivalent or better by the rating agencies on a stand alone basis. The MBIA wrap guarantees performance in the event of default of the underlying securities bringing the combined rating to AAA.

(3) Includes approved counterparty limit. The actual and the stressed potential exposures are less than the approved limit.

	December 31, 2005 Amortized Cost (in millions)
HSBC Holdings PLC(1)	$ 381.6
American International Group Inc.(3)	330.7
Bank of America Corp.(3)	317.5
JP Morgan Chase & Co.(3)	316.3
Royal Bank of Scotland Group PLC(3)	315.6
MBIA Inc.(2)	311.6
General Electric Co	247.5
Citigroup Inc.(3)	235.0
Banco Santander Central Hispano SA	227.4
AT&T Inc.	219.9
Total top ten exposures	$ 2,903.1

(1) Includes a $238.2 million investment classified as an equity security for U.S. GAAP. The investment issuer engages in managing investment grade third party bond investments and HSBC paper. All non-HSBC paper has the ultimate benefit of price support protection provided by HSBC Bank, PLC. Since Principal Life Insurance Company has senior priority in the issuer, we believe many third party bonds could be liquidated to satisfy our claim. While we calculate our exposure on a gross basis, the value we attribute to the underlying collateral is $125.0 million.

(2) MBIA Inc. exposure is predominately comprised of the guarantee of underlying securities which are rated “A-” equivalent or better by the rating agencies on a stand alone basis. The MBIA wrap guarantees performance in the event of a default of the underlying securities bringing the combined rating to AAA.

(3) Includes approved counterparty limit. The actual and the stressed potential exposures are less than the approved limit.

Our top ten exposures were rated an “A” equivalent or better by the rating agencies as of March 31, 2006 and December 31, 2005. As of March 31, 2006 and December 31, 2005, no individual non-government issuer represented more than 1% of U.S. invested assets.

Valuation techniques for the fixed maturity securities portfolio vary by security type and the availability of market data. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Interactive Data Corporation (“IDC”) or direct broker quotes are our sources for external prices for our public bonds and those private placement securities that are actively traded in the secondary market. In cases where quoted market prices are not available, a matrix pricing valuation approach is used. Securities are grouped into pricing categories that vary by asset class, sector, rating, and average life. Each pricing category is assigned a risk spread based on studies of observable public market data or market clearing data from the investment professionals assigned to specific security classes. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread. Although the matrix valuation approach provides a fair valuation of each pricing category, the valuation of an individual security within each pricing category may actually be impacted by company specific factors. Certain market events that could impact the valuation of securities include issuer credit ratings, business climate, management changes, litigation, and government actions among others. The resulting prices are then reviewed by pricing analysts. All loans placed on the “watch list” are valued individually by the investment analysts or the analysts that focus on troubled securities (“Workout Group”). Although we believe our estimates reasonably reflect the fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other factors involve significant assumptions and may not reflect those of an active market. To the extent that bonds have longer maturity dates, management’s estimate of fair value may involve greater subjectivity since they involve judgment about events well into the future. Every month, there is a comprehensive review of all impaired securities and problem loans by a group consisting of the Chief Investment Officer, the Portfolio Managers, and the Workout Group. The valuation of impaired bonds for which there is no quoted price is typically based on the present value of the future cash flows expected to be received. If the company is likely to continue operations, the

estimate of future cash flows is typically based on the expected operating cash flows of the company that are available to make payments of the bonds. If the company is likely to liquidate, the estimate of future cash flows is based on an estimate of the liquidation value of its net assets.

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) evaluates most of the fixed maturity securities that we and other U.S. insurance companies hold. The SVO 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. As of March 31, 2006, 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 95%.

We also monitor the credit drift of our corporate fixed maturity securities portfolio. Credit drift is defined as the ratio of the percentage of rating downgrades, including defaults, divided by the percentage of rating upgrades. We measure credit drift once each fiscal year, assessing the changes in our internally developed credit ratings that have occurred during the year. Standard & Poor’s annual credit ratings drift ratio measures the credit rating change, within a specific year, of companies that have been assigned ratings by Standard & Poor’s. The annual internal credit drift ratio on corporate fixed maturity securities we held in our general account was a more favorable ratio at 0.56 times compared to the Standard & Poor’s drift ratio of 0.78 times, as of December 31, 2005.

The following table presents our total fixed maturity securities by NAIC designation and the equivalent ratings of the nationally recognized securities rating organizations as of March 31, 2006, and December 31, 2005, as well as the percentage, based on estimated fair value, that each designation comprises:

U.S. Invested Assets
Fixed Maturity Securities by Credit Quality(1)

		March 31, 2006			December 31, 2005		
NAIC Rating	Rating Agency Equivalent	Amortized Cost	Carrying Amount	% of Total Carrying Amount	Amortized Cost	Carrying Amount	% of Total Carrying Amount
		($ in millions)					
1	Aaa/Aa/A	**$ 22,717.9**	**$ 23,044.3**	**57%**	$ 21,593.3	$ 22,361.9	56%
2	Baa	**15,202.3**	**15,529.8**	**38**	14,978.4	15,590.7	39
3	Ba	**1,631.8**	**1,709.2**	**4**	1,701.7	1,801.6	4
4	B	**242.2**	**255.1**	**1**	258.5	271.2	1
5	Caa and lower	**11.9**	**11.0**	**—**	14.3	14.4	—
6	In or near default	**37.3**	**36.9**	**—**	76.2	75.9	—
	Total fixed maturities	**$ 39,843.4**	**$ 40,586.3**	**100%**	$ 38,622.4	$ 40,115.7	100%

(1) Includes 72 securities with an amortized cost of $734.6 million, gross gains of $6.1 million, gross losses of $9.6 million and a carrying amount of $731.1 million as of March 31, 2006, that are still pending a review and assignment of a rating by the SVO. Due to the timing of when fixed maturity securities are purchased, legal documents are filed, and the review by the SVO, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst’s assessment.

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. Our current policy is to limit the percentage of cash flow invested in below investment grade assets to 7% of cash flow. As of March 31, 2006, we had invested 5.1% of new cash flow for the year 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 portfolios.

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.

The following table shows the carrying amount of our corporate fixed maturity securities by Salomon industry category, as well as the percentage of the total corporate portfolio that each Salomon industry category comprises as of March 31, 2006, and December 31, 2005.

U.S. Invested Assets
Corporate Fixed Maturity Securities by Salomon Industry

	March 31, 2006		December 31, 2005	
	Carrying Amount	% of Total	Carrying Amount	% of Total
	($ in millions)			
Industry Class				
Finance — Bank	**$ 3,719.2**	**13%**	$ 3,451.0	12%
Finance — Insurance	**2,975.1**	**10**	3,010.3	10
Finance — Other	**4,328.9**	**15**	4,090.1	14
Industrial — Consumer	**1,029.3**	**3**	1,067.2	4
Industrial — Energy	**2,613.4**	**9**	2,718.4	9
Industrial — Manufacturing	**5,251.6**	**18**	5,223.3	18

Industrial — Other	**65.7**	**—**	106.4	—
Industrial — Service	**4,540.3**	**15**	4,548.7	15
Industrial — Transport	**819.5**	**3**	848.6	3
Utility — Electric	**2,455.9**	**8**	2,568.6	9
Utility — Other	**45.9**	**—**	47.9	—
Utility — Telecom	**1,697.8**	**6**	1,811.8	6
Total	**$ 29,542.6**	**100%**	$ 29,492.3	100%

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

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

Every month, a group of individuals including the Chief Investment Officer, our Portfolio Managers, members of our Workout Group, and representatives from Investment Accounting review all securities to determine whether an other than temporary decline in value exists and whether losses should be recognized. The analysis focuses on each issuer’s ability to service its debts in a timely fashion and the length of time the security has been trading below cost. Formal documentation of the analysis and the company’s decision is prepared and approved by management.

We consider relevant facts and circumstances in evaluating whether the credit impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the length of time the fair value has been below cost; (2) the financial position and access to capital of the issuer, including the current and future impact of any specific events; and (3) our ability and intent to hold the security to maturity or until it recovers in value. To the extent we determine that a security is deemed to be other than temporarily impaired, the difference between amortized cost and fair value would be charged to earnings.

There are a number of significant risks and uncertainties inherent in the process of monitoring credit impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer’s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer,

(2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to hold the security to maturity or until it recovers in value. Any of these situations could result in a charge to earnings in a future period.

The net realized loss relating to other than temporary credit impairments of fixed maturity securities was $5.9 million for the three months ended March 31, 2006. The single largest other than temporary credit impairment represented less than 0.1% of U.S. fixed maturity securities as of March 31, 2006.

For the three months ended March 31, 2006, we realized $4.1 million of gross losses upon disposal of bonds excluding hedging adjustments. Included in this $4.1 million is $3.0 million related to sales of seven credit impaired and credit related names. We generally intend to hold securities in unrealized loss positions until they mature or recover. However, we do sell bonds under certain circumstances such as when we have evidence of a significant deterioration in the issuer’s creditworthiness, when a change in regulatory requirements modifies what constitutes a permissible investment or the maximum level of investments held or when there is an increase in capital requirements or a change in risk weights of debt securities. Sales generate both gains and losses.

The following tables present our fixed maturity securities available-for-sale by industry category and the associated gross unrealized gains and losses as of March 31, 2006, and December 31, 2005.

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Industry Category

	March 31, 2006			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Carrying Amount**
	(in millions)			
Finance — Bank	**$ 3,688.4**	**$ 74.0**	**$ 43.2**	**$ 3,719.2**
Finance — Insurance	**2,954.1**	**58.5**	**37.5**	**2,975.1**
Finance — Other	**4,252.9**	**135.3**	**59.3**	**4,328.9**
Industrial — Consumer	**1,023.0**	**25.4**	**19.1**	**1,029.3**
Industrial — Energy	**2,480.7**	**152.1**	**19.4**	**2,613.4**
Industrial — Manufacturing	**5,166.5**	**145.8**	**60.7**	**5,251.6**
Industrial — Other	**64.8**	**1.4**	**0.5**	**65.7**
Industrial — Service	**4,446.4**	**144.4**	**50.5**	**4,540.3**
Industrial — Transport	**783.9**	**41.4**	**5.8**	**819.5**

Utility — Electric	2,390.9	89.5	24.5	2,455.9
Utility — Other	41.2	4.7	—	45.9
Utility — Telecom	1,638.3	76.7	17.2	1,697.8
Total corporate securities	28,931.1	949.2	337.7	29,542.6
U.S. Government and agencies	575.8	1.0	8.1	568.7
States and political subdivisions	1,250.7	37.4	8.7	1,279.4
Non-U.S. governments	408.4	37.2	0.9	444.7
Mortgage-backed and other asset-backed securities	8,566.1	212.2	138.7	8,639.6
Total fixed maturity securities, available-for-sale	$ 39,732.1	$ 1,237.0	$ 494.1	$ 40,475.0

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Industry Category

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			
Finance — Bank	$ 3,354.9	$ 110.6	$ 14.5	$ 3,451.0
Finance — Insurance	2,915.0	111.3	16.0	3,010.3
Finance — Other	3,932.5	181.5	23.9	4,090.1
Industrial — Consumer	1,038.0	36.5	7.3	1,067.2
Industrial — Energy	2,506.5	220.2	8.3	2,718.4
Industrial — Manufacturing	5,060.9	201.4	39.0	5,223.3
Industrial — Other	104.4	2.3	0.3	106.4
Industrial — Service	4,369.6	204.4	25.3	4,548.7
Industrial — Transport	795.1	57.0	3.5	848.6
Utility — Electric	2,455.3	123.8	10.5	2,568.6
Utility — Other	41.2	6.7	—	47.9
Utility — Telecom	1,701.8	118.6	8.6	1,811.8
Total corporate securities	28,275.2	1,374.3	157.2	29,492.3
U.S. Government and agencies	557.9	1.8	4.2	555.5
States and political subdivisions	1,222.6	45.7	3.8	1,264.5
Non-U.S. governments	416.2	47.2	0.4	463.0
Mortgage-backed and other asset-backed securities	8,045.5	267.8	77.9	8,235.4
Total fixed maturity securities, available-for-sale	$ 38,517.4	$ 1,736.8	$ 243.5	$ 40,010.7

The total unrealized losses on our fixed maturity securities available-for-sale were $494.1 million and $243.5 million as of March 31, 2006 and December 31, 2005, respectively. Of the $494.1 million in gross unrealized losses as of March 31, 2006, there were $3.1 million in losses attributed to securities scheduled to mature in one year or less, $96.5 million is attributed to securities scheduled to mature between one to five years, $155.2 million is attributed to securities scheduled to mature between five to ten years, $100.6 million is attributed to securities scheduled to mature after ten years, and $138.7 million is related to mortgage-backed and other asset-backed securities. The gross unrealized losses as of March 31, 2006 and December 31, 2005 were concentrated primarily in the Mortgage-backed and other asset-backed securities, Industrial — Manufacturing, Industrial — Services, and Financial — Other sectors.

The following tables present our fixed maturity securities available-for-sale by investment grade and below investment grade and the associated gross unrealized gains and losses as of March 31, 2006, and December 31, 2005.

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Quality

	March 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			
Investment Grade:				
Public	$ 26,542.3	$ 707.9	$ 329.9	$ 26,920.3
Private	11,266.6	422.5	146.6	11,542.5
Below Investment Grade:				
Public	1,160.2	47.2	10.3	1,197.1
Private	763.0	59.4	7.3	815.1
Total fixed maturity securities, available-for-sale	$ 39,732.1	$ 1,237.0	$ 494.1	$ 40,475.0

U.S. Invested Assets
Fixed Maturity Securities Available-for-Sale by Quality

	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount
	(in millions)			

Investment Grade:								
Public	$	25,638.9	$	1,024.9	$	164.3	$	26,499.5
Private		10,827.8		584.5		64.2		11,348.1
Below Investment Grade:								
Public		1,263.4		54.4		9.9		1,307.9
Private		787.3		73.0		5.1		855.2
Total fixed maturity securities, available-for-sale	$	38,517.4	$	1,736.8	$	243.5	$	40,010.7

U.S. Invested Assets
Unrealized Losses on Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	March 31, 2006					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	**$ 4,799.0**	**$ 65.3**	**$ 2,111.1**	**$ 32.3**	**$ 6,910.1**	**$ 97.6**
Greater than three to six months	**1,710.6**	**40.3**	**729.7**	**19.8**	**2,440.3**	**60.1**
Greater than six to nine months	**4,047.1**	**136.3**	**1,484.8**	**60.3**	**5,531.9**	**196.6**
Greater than nine to twelve months	**368.3**	**13.6**	**79.7**	**2.1**	**448.0**	**15.7**
Greater than twelve to twenty-four months	**2,014.6**	**65.2**	**559.9**	**20.0**	**2,574.5**	**85.2**
Greater than twenty-four to thirty-six months	**165.8**	**9.2**	**240.9**	**12.1**	**406.7**	**21.3**
Greater than thirty-six months	**—**	**—**	**—**	**—**	**—**	**—**
Total fixed maturities, available-for-sale	**$ 13,105.4**	**$ 329.9**	**$ 5,206.1**	**$ 146.6**	**$ 18,311.5**	**$ 476.5**

U.S. Invested Assets
Unrealized Losses on Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	December 31, 2005					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	$ 1,907.9	$ 11.3	$ 774.3	$ 6.3	$ 2,682.2	$ 17.6
Greater than three to six months	4,332.5	79.6	1,574.5	29.3	5,907.0	108.9
Greater than six to nine months	416.3	12.9	109.5	2.8	525.8	15.7
Greater than nine to twelve months	1,032.0	22.3	212.3	5.2	1,244.3	27.5
Greater than twelve to twenty-four months	1,191.2	33.3	457.2	14.7	1,648.4	48.0
Greater than twenty-four to thirty-six months	118.5	4.8	161.8	5.9	280.3	10.7
Greater than thirty-six months	1.4	0.1	—	—	1.4	0.1
Total fixed maturities, available-for-sale	$ 8,999.8	$ 164.3	$ 3,289.6	$ 64.2	$ 12,289.4	$ 228.5

U.S. Invested Assets
Unrealized Losses on Below Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	March 31, 2006					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
	(in millions)					
Three months or less	**$ 156.9**	**$ 1.5**	**$ 39.3**	**$ 0.4**	**$ 196.2**	**$ 1.9**
Greater than three to six months	**66.4**	**0.6**	**72.3**	**3.0**	**138.7**	**3.6**
Greater than six to nine months	**92.0**	**4.3**	**35.9**	**1.4**	**127.9**	**5.7**
Greater than nine to twelve months	**56.5**	**2.0**	**27.6**	**0.8**	**84.1**	**2.8**
Greater than twelve to twenty-four months	**39.2**	**1.6**	**26.1**	**1.6**	**65.3**	**3.2**
Greater than twenty-four to thirty-six months	**19.5**	**0.1**	**0.6**	**0.1**	**20.1**	**0.2**
Greater than thirty-six months	**23.4**	**0.2**	**—**	**—**	**23.4**	**0.2**
Total fixed maturities, available-for-sale	**$ 453.9**	**$ 10.3**	**$ 201.8**	**$ 7.3**	**$ 655.7**	**$ 17.6**

U.S. Invested Assets
Unrealized Losses on Below Investment Grade Fixed Maturity Securities
Available-for-Sale by Aging Category

	December 31, 2005					
	Public		Private		Total	
	Carrying Amount	Gross Unrealized	Carrying Amount	Gross Unrealized	Carrying Amount	Gross Unrealized

		Losses		Losses		Losses
			(in millions)			
Three months or less	$ 121.9	$ 0.7	$ 55.8	$ 1.8	$ 177.7	$ 2.5
Greater than three to six months	81.9	4.7	36.4	0.8	118.3	5.5
Greater than six to nine months	50.8	0.8	36.8	1.2	87.6	2.0
Greater than nine to twelve months	49.2	1.9	18.4	0.5	67.6	2.4
Greater than twelve to twenty-four months	36.9	1.2	8.5	0.3	45.4	1.5
Greater than twenty-four to thirty-six months	—	—	0.6	0.1	0.6	0.1
Greater than thirty-six months	49.9	0.6	19.8	0.4	69.7	1.0
Total fixed maturities, available-for-sale	$ 390.6	$ 9.9	$ 176.3	$ 5.1	$ 566.9	$ 15.0

Of total gross unrealized losses as of March 31, 2006 and December 31, 2005, $476.5 million and $228.5 million were related to investment grade securities, respectively. Gross unrealized losses related to below investment grade securities were $17.6 million and $15.0 million as of March 31, 2006 and December 31, 2005, respectively.

The following tables present the carrying amount and gross unrealized losses on fixed maturity securities available-for-sale, where the estimated fair value has declined and remained below amortized cost by 20% or more as of March 31, 2006, and December 31, 2005.

U.S. Invested Assets
Unrealized Losses on Fixed Maturity Securities
Available-for-Sale by Aging Category

	March 31, 2006					
	Problem, Potential Problem, and Restructured		All Other Fixed Maturity Securities		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
			(in millions)			
Three months or less	$ —	$ —	$ —	$ —	$ —	$ —
Greater than three to six months	—	—	**3.9**	**2.4**	**3.9**	**2.4**
Greater than six to nine months	—	—	—	—	—	—
Greater than nine to twelve months	—	—	—	—	—	—
Greater than twelve months	—	—	—	—	—	—
Total fixed maturity securities, available-for-sale	$ —	$ —	$ **3.9**	$ **2.4**	$ **3.9**	$ **2.4**

U.S. Invested Assets
Unrealized Losses on Fixed Maturity Securities Available-for-Sale by Aging Category

	December 31, 2005					
	Problem, Potential Problem, and Restructured		All Other Fixed Maturity Securities		Total	
	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses	Carrying Amount	Gross Unrealized Losses
			(in millions)			
Three months or less	$ —	$ —	$ 4.2	$ 2.1	$ 4.2	$ 2.1
Greater than three to six months	—	—	—	—	—	—
Greater than six to nine months	—	—	—	—	—	—
Greater than nine to twelve months	—	—	—	—	—	—
Greater than twelve months	—	—	—	—	—	—
Total fixed maturity securities, available-for-sale	$ —	$ —	$ 4.2	$ 2.1	$ 4.2	$ 2.1

Gross unrealized losses on fixed maturity securities where the estimated fair value has been 20% or more below amortized cost were $2.4 million as of March 31, 2006 and $2.1 million as of December 31, 2005. There were no gross unrealized losses attributed to those securities considered to be “problem”, “potential problem” or “restructured” as of March 31, 2006 and December 31, 2005.

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

U.S. Invested Assets
Problem, Potential Problem and Restructured Fixed Maturities at Carrying Amount

	March 31, 2006	December 31, 2005
	($ in millions)	
Total fixed maturity securities (public and private)	$ **40,586.3**	$ 40,115.7
Problem fixed maturity securities	$ **7.9**	$ 42.0
Potential problem fixed maturity securities	**37.4**	101.6
Restructured fixed maturity securities	**9.4**	—
Total problem, potential problem and restructured fixed maturity securities	$ **54.7**	$ 143.6

Total problem, potential problem and restructured fixed maturity securities as a percent of total fixed maturity securities	**0%**	0%

Mortgage Loans

Mortgage loans consist primarily of commercial mortgage loans on real estate. At March 31, 2006, commercial mortgage loans aggregated to $9,755.5 million. Commercial mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method, and net of valuation allowances. Commercial mortgage loans held for sale are carried at the lower of cost or fair value, less cost to sell, and reported as mortgage loans in the statements of financial position.

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 18% of our commercial mortgage loan portfolio as of March 31, 2006. 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.

Our commercial loan portfolio is highly diversified by borrower. As of March 31, 2006, 38% of the U.S. commercial mortgage loan portfolio was comprised of mortgage loans with principal balances of less than $10.0 million. The total number of commercial mortgage loans outstanding as of March 31, 2006 and December 31, 2005 was 1,253 and 1,309, respectively. The average loan size of our commercial mortgage portfolio was $7.8 million as of March 31, 2006.

We actively monitor and manage our commercial mortgage loan portfolio. Substantially all loans within the portfolio are analyzed regularly and are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial

quality of these assets. 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 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.

The valuation allowance for commercial mortgage loans includes a loan specific allowance for impaired loans and a provision for losses based on past loss experience believed to be adequate to absorb estimated probable credit losses. The changes in this valuation allowance are reported as a net realized/unrealized capital loss on our consolidated statements of operations.

Commercial mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established or a direct write-down of the loan is recorded 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. When a valuation allowance is established, subsequent recoveries are charged to the valuation allowance and subsequent losses may be charged to the valuation allowance or as a direct write-down of the loan.

The determination of the calculation and the adequacy of the mortgage loan loss provision based on past experience and mortgage impairments is subjective. Our periodic evaluation and assessment of the adequacy of the provision for losses and the need for mortgage impairments is based on 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, loss experience and other relevant factors. The current portfolio statistics and past loss experience produced a provision for the Principal Life general account totaling $30.8 million. The evaluation of our impaired loan component of the allowance is subjective, as it requires estimating the amounts and timing of future cash flows expected to be received on impaired loans. Our financial position is sensitive to changes in estimated cash flows from mortgages, the value of the collateral, and changes in the economic environment in general. Decreases in the valuation allowance aggregated to $2.0 million for the three months ended March 31, 2006, and $9.2 million for the year ended December 31, 2005.

The following table represents our commercial mortgage valuation allowance for the periods indicated:

U.S. Invested Assets
Commercial Mortgage Valuation Allowance

	March 31, 2006	December 31, 2005
	($ in millions)	
Beginning balance	**$ 33.2**	$ 42.4
Provision	**0.3**	6.7
Release	**(2.3)**	(15.9)
Ending balance	**$ 31.2**	$ 33.2
Valuation allowance as % of carrying value before reserves	**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 for the periods indicated:

U.S. Invested Assets
Problem, Potential Problem and Restructured Commercial Mortgages at Carrying Amount

	March 31, 2006	December 31, 2005
	($ in millions)	
Total commercial mortgages	**$ 9,755.5**	$ 9,890.7
Problem commercial mortgages(1)	**$ 10.6**	$ 10.4
Potential problem commercial mortgages	**11.0**	10.2
Restructured commercial mortgages	**61.5**	65.1
Total problem, potential problem and restructured commercial mortgages	**$ 83.1**	$ 85.7
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	**1%**	1%

(1) Problem commercial mortgages include mortgage loans in foreclosure of $10.5 million as of March 31, 2006. This is the same mortgage loan that was in foreclosure as of December 31, 2005.

Equity Real Estate

We hold commercial equity real estate as part of our investment portfolio. As of March 31, 2006, and December 31, 2005, the carrying amount of equity real estate investment was $998.3 million and $987.7 million, or 2% and 2%, of U.S. invested assets, respectively. Our commercial equity real estate is held in the form of wholly owned real estate, real estate acquired upon foreclosure of commercial mortgage loans, and majority owned interests in real estate joint ventures.

Equity real estate is categorized as either "real estate held for investment" or "real estate held for sale". Real estate held for investment totaled $860.4 million as of March 31, 2006, and $853.9 million as of December 31, 2005. 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 years ended March 31, 2006 and December 31, 2005, there were no such impairment adjustments.

The carrying amount of real estate held for sale as of March 31, 2006, and December 31, 2005, was $137.9 million and $133.8 million, net of valuation allowances of $3.6 million and $4.2 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 periodic 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, 2006. By property type, there is a concentration in office buildings and industrial sites that represented approximately 67% of the equity real estate portfolio as of March 31, 2006.

Other Investments

Our other investments totaled $797.9 million as of March 31, 2006, compared to $755.3 million as of December 31, 2005. Derivatives accounted for $502.9 million in other investments as of March 31, 2006. The remaining invested assets include equity method investments, which include properties owned jointly with venture partners and operated by the partners.

International Investment Operations

As of March 31, 2006, our international investment operations consist of the investments of Principal International comprised of $3.1 billion in invested assets. Principal Global Investors advises each Principal International affiliate on 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. Principal Global Investors employees and international affiliate company credit analysts jointly review each corporate credit annually.

Overall Composition of International Invested Assets

As shown in the following table, the major categories of international invested assets as of March 31, 2006, and December 31, 2005, were fixed maturity securities and residential mortgage loans:

International Invested Assets

	March 31, 2006		December 31, 2005	
	Carrying Amount	% of Total	Carrying Amount	% of Total
	($ in millions)			
Fixed maturity securities				
Public	**$ 2,095.3**	**68%**	$ 2,114.1	69%
Private	**0.6**	**—**	0.6	—
Equity securities	**50.4**	**2**	50.7	2
Mortgage loans				
Residential	**505.4**	**17**	505.1	17
Real estate held for investment	**11.5**	**—**	11.7	—
Other investments	**401.9**	**13**	358.2	12
Total invested assets	**3,065.1**	**100%**	3,040.4	100%
Cash and cash equivalents	**52.3**		56.2	
Total invested assets and cash	**$ 3,117.4**		$ 3,096.6	

Item 3. Quantitative and Qualitative Disclosures 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. One source of interest rate risk is the inherent difficulty in obtaining assets that mature or have their rate reset at the exact same time as the liabilities they support. Assets may have to be reinvested or sold in the future to meet the liability cashflows in unknown interest rate environments. Also, there may be timing differences between when new liabilities are priced and when assets are purchased or procured that can cause fluctuations in profitability if interest rates move materially in the interim. A third source of interest rate risk is the prepayment options embedded within asset and liability contracts that can alter the cash flow profiles from what was originally expected.

One of the measures we use to quantify our exposure to interest rate risk is duration. To calculate duration, we project asset and liability cashflows. These cash flows 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,

re-determining the net present value based upon an alternative level of interest rates, and determining the percentage change in fair value.

We manage interest rate risks in a number of ways. Differences in durations between assets and liabilities are measured and kept within acceptable tolerances. Derivatives are also commonly used to mitigate interest rate risk due to cashflow mismatches and timing differences. Prepayment risk is controlled by limiting our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer. We also require additional yield on these investments to compensate for the risk the issuer will exercise such option. Prepayment risk is also controlled by limiting the sales of liabilities with features such as puts or other options that can be exercised against the company at inopportune times.

Duration-Managed. 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 actively manage the duration of assets and liabilities in these products by minimizing the difference between the two. We have established a maximum tolerance for this difference and seek to stay within this tolerance.

As of March 31, 2006, the difference between the asset and liability durations on our primary duration managed portfolio was +.02. 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 indicate that total duration gaps between the asset and liability portfolios should be within +/-0.25. The value of the assets in this portfolio was $31,987.2 million as of March 31, 2006.

Duration-Monitored. For products such as whole life insurance and term life insurance that are less sensitive to interest rate risk, and for other products such as individual single premium deferred annuities, 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, 2006, the weighted-average difference between the asset and liability durations on these portfolios was +.37. 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 $15,549.9 million as of March 31, 2006.

Non Duration-Managed. We also have a block of participating general account pension business that passes most of 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 $4,213.7 million as of March 31, 2006.

Using the assumptions and data in effect as of March 31, 2006, we estimate that a 100 basis point immediate, parallel increase in interest rates decreases the net fair value of our portfolio by approximately $63.8 million. The following table details the estimated changes by risk management strategy. The table also gives the weighted-average duration of the asset portfolio for each category, and the net duration gap (i.e. the weighted-average difference between the asset and liability durations).

	March 31, 2006			
Risk Management Strategy	**Value of Total Assets (in millions)**	**Duration of Assets**	**Net Duration Gap**	**Net Fair Value Change (in millions)**
Primary duration-managed	$ **31,987.2**	**3.86**	**.02**	$ **(6.4)**
Duration-monitored	**15,549.9**	**5.11**	**.37**	**(57.4)**
Non duration-managed	**4,213.7**	**5.36**	**N/A**	**N/A**
Total	$ **51,750.8**			$ **(63.8)**

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 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.

Debt Issued and Outstanding. As of March 31, 2006, the aggregate fair value of long-term debt was $943.3 million. A 100 basis point, immediate, parallel decrease in interest rates would increase the fair value of debt by approximately $33.4 million. Debt is not recorded at fair value on the statement of financial position.

	March 31, 2006 Fair Value (no accrued interest)		
	-100 Basis Point Change	**No Change (in millions)**	**+100 Basis Point Change**
8.2% notes payable, due 2009	$ **515.3**	$ **500.3**	$ **485.9**
4.59% notes payable, due 2011	**58.5**	**56.0**	**53.0**
4.93% notes payable, due 2011	**54.5**	**51.9**	**49.5**
8% surplus notes payable, due 2044	**115.2**	**106.2**	**97.3**
Non-recourse mortgages and notes payable	**181.7**	**177.9**	**174.2**
Other mortgages and notes payable	**51.5**	**51.0**	**50.5**
Total long-term debt	$ **976.7**	$ **943.3**	$ **910.4**

Use of Derivatives to Manage Interest Rate Risk. We use various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, swaptions, futures, total return swaps, mortgage-backed forwards and options. We use interest rate swaps, 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 primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the sensitivity to the interest rate of specific assets and liabilities as well as an entire portfolio. We also use these instruments to hedge the interest rate exposure in our commercial mortgage-backed securitization operations. Occasionally, we will sell a callable investment-type agreement and will use written interest rate swaptions to transform the callable liability into a fixed term liability.

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 foreign currency-denominated funding agreements issued to non-qualified institutional investors in the international market, foreign currency-denominated fixed maturity securities purchased, and our international operations.

We estimate that as of March 31, 2006, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no material 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.

Use of Derivatives to Manage Foreign Currency Risk. The foreign currency risk on funding agreements and fixed maturity securities is eliminated by using currency swaps that swap the foreign currency interest and principal payments to our functional currency. The notional amount of our currency swap agreements associated with foreign-denominated liabilities as of March 31, 2006, was $3,098.6 million. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturity securities as of March 31, 2006, was $1,295.9 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. As of March 31, 2006, our operations in Chile had currency swaps with a notional amount of $24.1 million that are used to swap cash flows on U.S. dollar-denominated bonds to a local currency. Chile also utilized currency forwards with a notional amount of $51.3 million in order to mitigate currency exposure related to U.S. dollar-denominated bonds.

Additionally, we may take measures to hedge our net equity investments in our foreign subsidiaries from currency risks. Currently, there are no outstanding net equity investment hedges.

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, 2006, the fair value of our equity securities was $818.0 million. A 10% decline in the value of the equity securities would result in an unrealized loss of $81.8 million. The selection of a 10% unfavorable change in the equity markets 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.

We also have equity risk associated with (1) fixed deferred annuity products that credit interest to customers based on changes in an external equity index; (2) variable annuity contracts that have a guaranteed minimum withdrawal benefit (“GMWB”) rider that allows the customer to receive at least the principal deposit back through withdrawals of a specified annual amount, even if the account value is reduced to zero; (3) variable annuity contacts that have a guaranteed minimum death benefit (“GMDB”) that allows the death benefit to be paid, even if the account value has fallen below the GMDB amount; (4) investment-type contracts in which the return is tied to an external equity index; and (5) investment-type contracts in which the return is subject to minimum contractual guarantees.

Use of Derivatives to Manage Equity Risk. We economically hedge the fixed deferred annuity product by purchasing options that match the product’s profile. We economically hedge the GMWB exposure using futures, options and interest rate swaps. We economically hedge the investment contract exposure using equity call options.

Credit Risk

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. Our ability to manage credit risk is essential to our business and our profitability. See Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations, Investments” for additional information about credit risk.

Use of Derivatives to Diversify or Hedge Credit Risk. We sometimes purchase credit default swaps to hedge credit exposures in our investment portfolio. We sell credit default swaps to offer credit protection to investors. If there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security.

We have increased our credit exposure through credit default swaps by investing in $127.5 million of various tranches of synthetic collateralized debt obligations. The outstanding notional amount as of March 31, 2006 was $565.0 million. We also invested in credit default swaps creating replicated assets with a notional amount of $722.6 million as of March 31, 2006.

In addition, on May 26, 2005, we invested $130.0 million in a secured limited recourse credit linked note issued by a grantor trust. The trust entered into a credit default swap providing credit protection on the first 45% of loss of seven mezzanine tranches totaling $288.9 million of seven synthetic reference portfolios. The risk of loss for the seven referenced mezzanine tranches begins at 4.85% and ends at 10.85% of loss on each of the seven synthetic reference portfolios. Therefore, defaults in an underlying reference portfolio will only affect the credit-linked note if cumulative losses exceed 4.85% of a synthetic reference portfolio. As of March 31, 2006, the credit default swap entered into by the trust had an outstanding notional amount of $130.0 million. The creditors of the grantor trusts have no recourse to the assets of our company.

Derivative Summary

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. 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, 2006, and December 31, 2005.

Derivative Financial Instruments — Notional Amounts

	March 31, 2006		December 31, 2005	
	Notional Amount	% of Total	Notional Amount	% of Total
	($ in millions)			
Interest rate swaps	**$ 9,066.6**	**50%**	$ 8,531.3	50%
Foreign currency swaps	**4,418.5**	**25**	3,854.5	23
Credit default swaps	**1,417.6**	**8**	1,297.6	8
Embedded derivative financial instruments	**1,372.6**	**8**	1,199.5	7
Swaptions	**674.5**	**4**	684.5	4
Currency forwards	**403.3**	**2**	566.6	4
Call options	**211.5**	**1**	189.8	1

Total return swaps	**200.0**	**1**	100.0	1
Interest rate lock commitments	**174.9**	**1**	392.3	2
Mortgage-backed forwards and options	**56.5**	**—**	39.3	—
Bond options	**38.5**	**—**	38.5	—
Futures	**35.6**	**—**	58.9	—
Total	**$ 18,070.1**	**100%**	$ 16,952.8	100%

Derivative Financial Instruments — Credit Exposures

	March 31, 2006		December 31, 2005	
	Credit Exposure	% of Total	Credit Exposure	% of Total
	($ in millions)			
Foreign currency swaps	**$ 306.7**	**58%**	$ 339.6	72%
Interest rate swaps	**176.0**	**33**	89.3	19
Call options	**20.9**	**4**	18.0	4
Credit default swaps	**14.4**	**3**	14.0	3
Currency forwards	**12.5**	**2**	11.4	2
Bond options	**0.6**	**—**	0.6	—
Total credit exposure	**531.1**	**100%**	472.9	100%
Less: Collateral received	**(107.4)**		(97.6)	
Total	**$ 423.7**		$ 375.3	

The following table 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.

	March 31, 2006				
			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	**$ 9,066.6**	**6.42(1)**	**$ (109.8)**	**$ 121.9**	**$ 323.0**
Mortgage-backed forwards and options	**56.5**	**.03(4)**	**(0.3)**	**0.1**	**0.6**
Swaptions	**674.5**	**7.36(3)**	**(10.2)**	**(20.7)**	**(40.8)**
Futures	**28.7**	**.21(2)**	**(1.1)**	**—**	**1.2**
Total return swaps	**200.0**	**.25(1)**	**—**	**—**	**—**
Bond options	**38.5**	**1.88(4)**	**(5.3)**	**(0.3)**	**1.6**
Total	**$ 10,064.8**		**$ (126.7)**	**$ 101.0**	**$ 285.6**

(1) Based on maturity date of swap.

(2) Based on maturity date.

(3) Based on option date of swaption.

(4) 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.

Counterparty Risk

In conjunction with our use of derivatives, we are exposed to counterparty risk, or the risk that the 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;
- diversifying our risk across numerous approved counterparties;
- limiting exposure to A+ credit or better;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction;
- implementing credit support annex (collateral) agreements with selected counterparties to further limit counterparty exposures; 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 manageable.

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.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

In order to ensure that the information that we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have adopted disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file with or submit to the SEC is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, J. Barry Griswell, and our Chief Financial Officer, Michael H. Gersie, have reviewed and evaluated our disclosure controls and procedures as of March 31, 2006, and have concluded that our disclosure controls and procedures are effective.

PART II – OTHER INFORMATION

Item 1. 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 asset management and accumulation products and services, life, health and disability insurance. Some of the lawsuits are class actions, or purport to be, and some include claims for punitive damages. In addition, 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.

Several lawsuits have been filed against other insurance companies and insurance brokers alleging improper conduct relating to the payment and non-disclosure of contingent compensation and bid-rigging activity. Several of these suits were filed as purported class actions. Several state attorneys general and insurance regulators have initiated industry-wide inquiries or other actions relating to compensation arrangements between insurance brokers and insurance companies and other industry issues. We received a subpoena on March 3, 2005 from the Office of the Attorney General of the State of New York seeking information on compensation agreements associated with the sale of retirement products. On January 13, 2006, we received a subpoena and a set of interrogatories from the Office of the Attorney General of the State of Connecticut seeking information and documents relating to payment of contingent compensation to brokers and actions in restraint of trade in the sale of group annuities. We are cooperating with these inquiries. We have received requests from regulators and other governmental authorities relating to industry issues and may receive such requests in the future.

On December 23, 2004, a lawsuit was filed in Iowa state court against us and our wholly owned subsidiaries, Principal Life and Principal Financial Services, Inc., on behalf of a proposed class comprised of the settlement class in the Principal Life sales practices class action settlement, which was approved in April 2001 by the United States District Court for the Southern District of Iowa. This more recent lawsuit claims that the treatment of the settlement costs of that sales practices litigation in relation to the allocation of demutualization consideration to Principal Life policyholders was inappropriate. Demutualization allocation was done pursuant to the terms of a plan of demutualization approved by the policyholders in July 2001 and Insurance Commissioner of the State of Iowa in August 2001. The lawsuit further claims that such allocation was not accurately described to policyholders during the demutualization process and is a breach of the sales practices settlement. On January 27, 2005, we filed a notice to remove the action from state court to the United States District Court for the Southern District of Iowa. On July 22, 2005, the plaintiff's motion to remand the action to state court was denied, and our motion to dismiss the lawsuit was granted. On September 21, 2005, the plaintiff's motion to alter or amend the judgment was denied. On October 4, 2005, the plaintiff filed a notice of appeal to the United State Court of Appeals for the Eighth Circuit.

A lawsuit was filed against us, Principal Life, and Principal Financial Services, Inc. in the United States District Court for the Southern District of Iowa on October 31, 2005, but the plaintiff dismissed the case without prejudice on March 17, 2006. The claims and allegations in the lawsuit were substantially the same as those in the December 23, 2004 lawsuit, but the proposed class was limited to those members of the settlement class in the Principal Life sales practices class action settlement who did not own annuities and who received demutualization consideration in the form of cash under the plan of demutualization.

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 our business or financial position. The outcome of litigation is always uncertain, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a particular quarter or annual period.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

Issuer Purchases of Equity Securities

Period	Total Number	Average	Total Number of	Maximum

	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)
January 1, 2006 – January 31, 2006	**886,250(1)**	**$ 47.19**	**886,200**	**$ 208.2(2)**
February 1, 2006 – February 28, 2006	**824,276(1)**	**$ 48.14**	**814,895**	**$ 169.0(2)**
March 1, 2006 – March 31, 2006	**1,672,028(1)**	**$ 49.06**	**1,655,200**	**$ 87.7(2)**
Total	**3,382,554**		**3,356,295**	

(1) The number of shares include shares of common stock utilized to execute certain stock incentive awards in 2006: 50 shares in January, 9,381 shares in February, and 16,828 shares in March.

(2) In November 2005, our Board of Directors authorized a repurchase program of up to $250.0 million of our outstanding common stock.

Item 6. Exhibits

Exhibit Number	Description
10.12	Change-of-Control Supplement to Employment Agreement, dated as of February 28, 2006, by and among Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and J. Barry Griswell
10.13	Form of Principal Financial Group, Inc. and Principal Life Insurance Company Change-of-Control Employment Agreement (Tier One Executives), dated as of February 28, 2006, by and among Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and an Executive
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of J. Barry Griswell
31.2	Certification of Michael H. Gersie
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – J. Barry Griswell
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Michael H. Gersie

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRINCIPAL FINANCIAL GROUP, INC.

Dated: May 3, 2006

By /s/ Michael H. Gersie

Michael H. Gersie
Executive Vice President and Chief Financial Officer

Duly Authorized Officer, Principal Financial Officer, and Chief Accounting Officer

Exhibit Index

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CHANGE OF CONTROL SUPPLEMENT

TO EMPLOYMENT AGREEMENT

FOR J. BARRY GRISWELL

CHANGE-OF-CONTROL SUPPLEMENT

TO EMPLOYMENT AGREEMENT

FOR

J. BARRY GRISWELL

THIS CHANGE OF CONTROL SUPPLEMENT TO EMPLOYMENT AGREEMENT ("Supplement") dated as of February 28, 2006 (the "Supplement Date") is made by and among Principal Financial Group, Inc., a Delaware corporation, (together with all successors thereto, " PFGI"), 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"). This Supplement supersedes the Change of Control Supplement and Amendment to Employment Agreement between Principal Mutual Holding Company, Principal Financial Group, Inc., Principal Financial Services, Inc. and Principal Life Insurance Company and Executive dated April 1, 2004 (the "Prior Supplement").

RECITALS

The Companies 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 PFGI, 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. The parties have determined that the Prior Supplement should be modified to simplify its operation, clarify certain provisions and otherwise conform to changes in best practices for such arrangements arising since the execution of the Prior Supplement. This Supplement is intended to accomplish the above stated objectives, shall supercede the Prior Supplement in its entirety and, in the circumstances specified below in Section 1.1, shall apply in lieu of Executive's Employment Agreement with the Companies dated as of April 1, 2004 (such agreement as amended from time to time, and any successors thereto, the "Employment Agreement").

Article I.

Term

1.1 Relationship of the Supplement to the Employment Agreement. This Supplement shall become effective if the Effective Date occurs during the Supplement Term. If this Supplement shall become effective due to the occurrence of an Effective Date, the Employment Agreement shall be suspended and this Supplement shall govern the terms and conditions of Executive's employment for the remainder of the Supplement Term. Notwithstanding anything else in the Employment Agreement to the contrary, no notice to not extend the term of the Employment Agreement may be given after the occurrence of a Pre-Change of Control Event or

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during the Employment Period, provided, however, that, if the Board determines in good faith that a Pre-Change of Control Event will not culminate in a Change of Control, then after the date of such determination, such a notice not to extend the term of the Employment Agreement may be delivered in accordance with the terms thereof. If this Supplement shall have become effective and Executive is still employed by any of the Companies on the date that the Supplement Term expires in accordance with the terms hereof, the Employment Agreement shall be reinstated and shall govern the terms and conditions of Executive's employment from and after the expiration of the Supplement Term. If no Effective Date shall occur during the Supplement Term, this Supplement shall not in any way modify, amend or otherwise supercede the Employment Agreement, which shall, in such instance, govern the terms and conditions of Executive's employment.

1.2 Term. The initial term of this Supplement shall commence on the Supplement Date and expire on the second anniversary of the Supplement Date. On the second anniversary and each subsequent anniversary of the Supplement Date, the Supplement Term shall automatically be extended for one additional year unless prior thereto the Company shall have delivered written notice (an "Expiration Notice") to Executive that this Supplement shall expire at the end of its then current term (including any extensions of the initial term that having previously occurred) (the "Expiration Date"). Notwithstanding the foregoing, if an Effective Date occurs before the Expiration Date, then the Supplement Term shall automatically be extended to the second anniversary of the Effective Date and shall then expire. If an Expiration Notice is given but an Effective Date or a Pre-Change of Control Event occurs before the Expiration Date, then the Expiration Notice shall be void and of no further effect. However, if a Pre-Change of Control Event does not culminate in a Change of Control, then the Expiration Notice shall be reinstated and the Supplement Term shall expire on the later of (i) the originally-specified Expiration Date or (ii) the date the Board determines in good faith that Pre-Change of Control Event will not result in a Change of Control. The term of this Supplement, including any and all extensions thereof occurring pursuant to this Section 1.1, shall hereinafter be referred to as the "Supplement Term." Notwithstanding anything else in the Supplement to the contrary, this Supplement shall have no force and effect unless Executive is an employee of the Companies continuously from the Supplement Date to the Effective Date.

Article II.

Certain Definitions

As used in this Supplement, the terms specified below shall have the following meanings:

2.1 “Accountants” – see Section 6.1.

2.2 “Accrued Annual Bonus” means the amount of any Annual Bonus earned but not yet paid with respect to any Company’s latest fiscal year ended prior to Executive’s Termination Date.

2.3 “Accrued Base Salary” means the amount of Executive’s Base Salary that is accrued but not yet paid as of the Termination Date.

2.4 “Accrued LTIP Bonus” means the amount of any LTIP Bonus earned but not paid on or prior to Executive’s Termination Date.

2.5 “Accrued Obligations” means, as of any date, Executive’s Current Obligations 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), including, without limitation, amounts earned but deferred under the LTPP.

2.6 “Affiliate” of any Person means any other Person that directly or indirectly controls, is controlled by, or is under common control with, the first Person. 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.

2.7 “Annual Bonus” — see Section 3.2(b).

2.8 “Annual Performance Period” means the calendar year or any other period of time not greater than 12 months specifically designated as the applicable annual performance period in accordance with any annual bonus arrangement applicable to Executive.

2.9 “Article” means an article of this Supplement.

2.10 “Base Salary” — see Section 3.2(a).

2.11 “Beneficial Owner” means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

2.12 “Beneficiary” — see Section 11.3.

2.13 “Board” means the Board of Directors of PFG or, from and after the effective date of a Reorganization Transaction, the Board of Directors of the Surviving Corporation.

2.14 “Bonus Pro-ration Fraction” —see the definition of Pro-rated Bonus.

2.15 “Cause” — see Section 4.3.

2.16 “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 40% or more of the common stock or of Voting Securities representing 40% or more of the combined voting power of all Voting Securities of PFG (such an SEC Person, a “40% Owner”); or

(b) the PFG Incumbent Directors cease for any reason to constitute at least a majority of the Board;

(c) consummation of a merger, reorganization, consolidation, or similar transaction (any of the foregoing, a “Reorganization Transaction”) where the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of PFG immediately before such Reorganization Transaction are not or do not become, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of 60% of each of (i) the then-outstanding common stock of the Surviving Corporation and (ii) 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 PFG immediately before such Reorganization Transaction; or

(d) approval by PFG’s stockholders and consummation of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of PFG or a plan of liquidation of PFG.

Notwithstanding the occurrence of any of the foregoing events, for purposes of this Supplement, a Change of Control shall not be deemed to have occurred for purposes of this Supplement, with respect to Executive if, in advance of such event, Executive agrees in writing that such event shall not constitute a Change of Control.

2.17 “Code” means the Internal Revenue Code of 1986, as amended.

2.18 “Company” – see the introductory paragraph to this Supplement.

2.19 “Company Certificate” — see Section 6.4(a).

2.20 "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 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 in connection with the sale of financial 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 determination (or, if earlier, Executive's Termination Date) 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.

2.21 "Current Obligations" means the sum of the amounts of Executive's Accrued Annual Bonus, Accrued Base Salary, Accrued LTIP Bonus and any accrued but unpaid paid time off; provided that, if any amount that would otherwise be treated as a Current Obligation would, if paid when specified hereunder, constitute deferred compensation within the meaning of Section 409A of the Code, such amount shall not be treated as a Current Obligation.

2.22 "Disability" – see Section 4.1(b).

2.23 "Effective Date" means the date on which a Change of Control first occurs during the Supplement Term.

2.24 "Employment Period" means the period commencing on the Effective Date and ending on the second anniversary of the Effective Date; provided that, in the event Executive's employment terminates after the Effective Date, in circumstances under which Executive becomes entitled to receive the payments described in Section 5.1 or due to Executive's death or Disability, the Employment Period shall end on the date of such termination of employment.

2.25 "Equity Performance Award" – see Section 3.3.

2.26 "Equity Service Award" – see Section 3.3.

2.27 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.28 "Excise Taxes" — see Section 6.1.

2.29 "40% Owner" see paragraph (a) of the definition of "Change of Control."

2.30 "Good Reason" — see Section 4.4.

2.31 "Gross-Up Multiple" — see Section 6.1.

2.32 "Gross-Up Payment" — see Section 6.1.

2.33 "including" means including without limitation.

2.34 "Incumbent Directors" means, as of any date, the individuals then serving as members of the Board who were members of the Board as of the Supplement Date; provided that any person appointed or elected as a member of the Board after the Supplement Date whose election, or nomination for election, by stockholders of PFG or the Surviving Corporation, as applicable, was approved by a vote or written consent of at least a majority of the directors then comprising the Incumbent Directors shall also thereafter be considered an Incumbent Director, unless the initial assumption of office of such subsequently-elected or appointed director was in connection with a proxy solicitation or contest by any Person (other than any of the Companies) to elect or remove one or more members of the Board.

2.35 "IRS" means the Internal Revenue Service of the United States of America.

2.36 "IRS Claim" — see Section 6.4.

2.37 "LTIP" means the Principal Financial Group Stock Incentive Plan, the Principal Financial Group 2005 Stock Incentive Plan and any other or successor long-term incentive plan (other than the LTPP) established by any of the Companies or any Surviving Corporation.

2.38 "LTIP Award" means a grant under the LTIP.

2.39 "LTIP Bonus" means the amount paid or earned in respect of an LTIP Award.

2.40 "LTIP Performance Period" means the performance period applicable to an LTIP Award, as designated in accordance with the LTIP.

2.41 "LTIP Target Award" means, in respect of any LTIP Award, 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.

2.42 "LTPP" means the 1999 Long-Term Performance Plan, as may be amended from time to time.

2.43 "Lump Sum Value" of an annuity payable to Executive pursuant to a defined benefit plan (whether or not a Qualified Plan or a Non-Qualified Plan) means, as of a specified date, the present value of a single life annuity, payable under such plan and determined, as of such date, under generally accepted actuarial principles (i) assuming for the purposes of eligibility for payment of benefits prior to normal retirement date that Executive had completed at least 10 years of service and had attained age 57 or Executive's actual age, if greater (but using actual age for otherwise determining actuarial equivalent present value), (ii) using 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 (iii) 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. The immediate annuity assumptions shall be applied solely for purposes of determining the actuarial assumptions applicable to the Lump Sum Value calculation and not for the purpose of determining when an annuity would commence. The value of any post-retirement cost-of-living adjustment to any annuity payable pursuant to a defined benefit plan shall be included in the Lump Sum Value and shall be reduced to present value in accordance with the foregoing assumptions and in such manner as shall be determined by the outside actuarial firm engaged by the Company immediately prior to the Effective Date for purpose of the defined benefit plan. Notwithstanding the foregoing, if any 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 single life annuity available under such plan, then "Lump Sum Value" in respect of the benefit payable under such Plan shall mean such lump sum amount.

2.44 "Non-Qualified Plan" means a plan that is not qualified under Section 401(a) of the Code.

2.45 "Notice of Consideration" — see Section 4.3.

2.46 "Notice of Termination" means a written notice given in accordance with Section 11.7 which sets forth (i) the specific termination provision in this Supplement 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.

2.47 "Parachute Payment" — see Section 6.1.

2.48 "Peer Executive" means each officer of any of the Companies who is a party to a change of control agreement having terms generally consistent with those of this Supplement and all executive officers (and all other employees performing policy making functions, regardless of title) at any organization that is a successor or interest to, or the direct or indirect parent of, any of the Companies.

2.49 "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.

2.50 "PFG" – see the introductory paragraph to this Supplement.

2.51 "Plans" means plans, programs, policies, practices or procedures of the Companies.

2.52 "Pre-Change of Control Event" means the occurrence of any one or more of the following: (i) the commencement of a tender offer for Voting Securities of PFG, consummation of which would result in a SEC Person becoming a 40% owner; (ii) a proxy solicitation or contest for the election of one or more Board members commenced by a person other than PFG; (iii) one of the Companies enters into an agreement the consummation of which would constitute a Reorganization Transaction or would otherwise result in a Change of Control; or (iv) any other event, transaction or occurrence that the Board declares to be a Pre-Change of Control Event.

2.53 "Pro-rata Annual Bonus" means an amount equal to the product of (x) a fraction, the numerator of which equals the number of days from and including the first day of such fiscal year through and including such Termination Date and the denominator of which equals 365 (the "Bonus Pro-ration Fraction") and (y) Executive's Target Annual Bonus for the fiscal year in which Executive's Termination Date occurs, but disregarding any reduction in such Target Annual Bonus that would qualify as Good Reason if Executive were to terminate employment on account thereof.

2.54 "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 Executive's Termination Date, as applicable:

(a) For any LTIP Award that was granted in the fiscal year in which the Termination Date occurs an amount calculated by multiplying the LTIP Target Award for such LTIP 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 Termination Date and the denominator of which is 365.

(b) For any other LTIP Award not described in subsection (a) above of this definition, the amount that would be payable thereunder based on actual performance through the most recent date as of which the achievement of the performance criteria can reasonably be measured, projected out until the end of the stated performance period], assuming that such most recent measurement date was the end of the applicable performance period.

2.55 "Qualified Plan" means a plan that is qualified under Section 401(a) of the Code.

2.56 "Refund Claim" — see Section 6.4.

2.57 "Reorganization Transaction" — see clause (c) of the definition of "Change of Control."

2.58 "SEC" means the United States Securities and Exchange Commission.

2.59 "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 of any Company or any employee benefit plan (or any related trust) of PFG or any of its Affiliates.

2.60 "Section" means, unless the context otherwise requires, a section of this Supplement.

2.61 "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).

2.62 "Supplement Date" — see the introductory paragraph of this Supplement.

2.63 "Supplement Term" –see Section 1.2.

2.64 "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, the highest corporation in an unbroken chain of corporations that includes PFG or any successor in interest thereto.

2.65 "Target Annual Bonus" as of a certain date means the amount equal to the product of (i) Executive's Base Salary determined as of such date multiplied by (ii) the percentage of such Base Salary which Executive would have been entitled to receive as an Annual Bonus for the Annual Performance Period in which such determination is being made if the performance goals established with respect thereto were achieved at the 100% level as of the end of the Annual Performance Period; provided, however, that no reduction in Executive's Base

Salary or Annual Bonus that would qualify as Good Reason shall be taken into account for purposes of determining Target Annual Bonus pursuant to this definition.

2.66 "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.

2.67 "Termination Date" means the date of the receipt of a Notice of Termination by Executive (if such Notice is given by the Company) or by or on behalf of the Companies (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 4.1(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.

2.68 "Termination of Employment" means any termination of Executive's employment with each of the Companies, whether such termination is initiated by the Companies or by Executive.

2.69 "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.

2.70 "Welfare Benefits" means the following (and only the following) welfare benefits, whether or not provided under a Plan: accidental death and dismemberment (AD&D), dental, medical, vision and group-term life insurance.

Article III.

Employment Period

3.1 Position and Duties.

(a) Change of Control. During the Employment Period, (i) Executive's position (including offices, titles, responsibilities and reporting requirements, 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, including all of the duties

applicable under Section 2.1 of the Employment Agreement, and (ii) Executive's services shall be performed at the location where Executive was employed immediately before the Effective Date or any other location no more than 50 miles from such former location.

(b) Executive's Obligations. During the Employment Period, Executive agrees to devote Executive's full attention and business time (other than during any periods of paid time off, sick leave or disability to which Executive is entitled) to the business and affairs of the Companies and, to the extent necessary to discharge the duties assigned to Executive in accordance with this Supplement, to use Executive's commercially reasonable best efforts to perform such duties. During the 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 do not significantly interfere with the performance of Executive's duties under this Supplement; it being agreed and understood that, to the extent that, any activities permitted under Section 2.2 of the Employment Agreement were conducted by Executive immediately prior to 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 Supplement.

3.2 Compensation.

(a) Base Salary. During the Employment Period, the Companies shall pay or cause to be paid to Executive an annual base salary in cash, which shall be paid in a manner consistent with the Companies applicable 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 Companies in respect of the 12-month period immediately before the Effective Date (such annual rate salary, the "Base Salary"). During the Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time in such manner as shall be substantially consistent with increases in base salary awarded to Peer Executives. Any increase in Base Salary shall not limit or reduce any other obligation of the Companies to Executive under this Supplement. After any such increase, the Base Salary shall not be reduced and the term "Base Salary" shall thereafter refer to the increased amount.

(b) Annual Bonus. In addition to Base Salary, the Companies shall provide to Executive the opportunity to receive payment of regular bonuses in accordance with this Section 3.2(b). The Companies shall afford Executive the opportunity to receive an annual bonus in respect of each Annual Performance Period (an "Annual Bonus") that ends during the Employment Period, and the opportunity provided to Executive and the form and timing of payment of such bonus shall be determined in accordance with the methodology for establishing and paying Executive's annual bonus under Section 4.2 of the Employment Agreement. [If, immediately prior to the Effective Date, Executive participated in a Plan that provided for a bonus payable in respect of a performance period of less than 12 months (a "Periodic Bonus Period"), then the Companies shall afford Executive the opportunity to receive a bonus (a "Periodic Bonus") for each comparable period ending during the Employment Period.] Executive's bonus opportunity in respect of any such Annual Performance Period [or Periodic Performance Period] shall not be less than, and shall have target performance goals no more difficult to achieve than, those in effect with respect to the Annual Performance Period [or Periodic Performance Period, as the case may be,] in effect immediately prior to the Effective Date.

(c) Other Compensation and Benefits. In addition to Base Salary and Annual Bonus, throughout the Employment Period, the Companies shall provide the following other compensation and benefits to Executive, provided that, in no event shall such other compensation and benefits be materially less favorable, in the aggregate, than the most favorable compensation and benefits (but exclusive of Base Salary and Annual Bonus) provided by the Companies to Executive (including any such compensation and benefits provided under Plans (but exclusive of Base Salary and Annual Bonus)) at any time during the 90-day period immediately before the Effective Date:

(1) LTIP Awards. LTIP Awards shall be granted to Executive based on whichever of the following methods is more favorable to Executive: (i) in such amounts and on such terms as are at least as favorable to Executive as any LTIP Awards granted to any Peer Executive or (ii) at least as frequently as LTIP Awards were granted to Executive 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 targets applicable with respect to the Executive's LTIP Awards outstanding immediately prior to the Effective Date, and with target performance goals that are not substantially more difficult to obtain, on average, than 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 on the most favorable terms applicable to any Peer Executive;

(3) Welfare Benefit Plans. Executive and Executive's family shall be eligible to participate in, and receive any Welfare Benefits provided by the Company to any Peer Executive and his or her family;

(4) Fringe Benefits. Executive shall be entitled to fringe benefits in accordance with the most favorable Plans applicable to Peer Executives. The Companies shall also provide Executive and his spouse with at least the same air travel arrangements as are provided to Executive and his spouse under Section 5.4 of the Employment Agreement;

(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;

(6) Vacation. Executive shall be entitled to paid time off in accordance with the most favorable Plans applicable to Peer Executives.

3.3 Stock Incentive Awards. On the Effective Date, any then outstanding equity or equity-based awards other than stock options or stock appreciation rights held by, or credited to, Executive that would, in accordance with their terms, generally become vested, if at all, upon the achievement of specified performance objectives (and not on the basis of the passage of time and

the continued performance of service) ("Equity Performance Awards") shall be converted into a number of shares of restricted stock or restricted stock units of PFG (or, in the case of a Reorganization Transaction, in respect of the common stock of the Surviving Corporation) that will vest, if at all, subject to Executive's continued performance of services, on the date on which the corresponding performance period would otherwise have expired. The number of such shares of restricted stock and restricted stock units shall be determined based on actual performance against the stated performance criteria through the Effective Date, projected out to the end of the corresponding performance period, but shall not be adjusted due to the fact that the Effective Date occurs prior to the end of the stated performance period. Each of Executive's outstanding stock options or stock appreciation rights and any outstanding equity or equity-based awards held by, or credited to, Executive that would, in accordance with their terms, generally become vested, if at all, on the basis of the passage of time and the continued performance of service (such options, rights and other awards collectively referred to as the "Equity Service Awards") shall continue to be honored in accordance with the terms of such award, except that, if the Effective Date occurs in connection with a Reorganization Transaction, such Equity Service Awards shall be converted into equity or equity-based awards of a similar type and nature related to, the common stock of the Surviving Corporation using the same exchange ratio as is applicable to shareholders of PFG (or, where shareholders receive any consideration other than in common stock) based on the relative values of the PFG and Surviving Corporation common stock on or about the date the transaction closes, using valuation principals permitted under Treas. Reg. §1.424-1. Notwithstanding the foregoing provisions of this Section 3.3 any conversion into equity or equity-based awards related to the common stock of the Surviving Corporation shall only occur to the extent the agreement pursuant to which the Reorganization Transaction is effected provides for such conversion, and, if such agreement does not provide for such a conversion as to some or all of Executive's Equity Performance Awards or Equity Service Awards, then such portion of Executive's Equity Performance Awards or Equity Service Awards (regardless of the terms upon which such Awards would otherwise vest) shall become fully vested, exercisable and /or distributable upon the Effective Date, and unless the Human Resources Committee of the Board, (or such other committee of the Board to which the Board shall have delegated authority for such decision), as constituted immediately prior to a Reorganization Transaction (the "Committee"), determines in accordance with the LTIP that no equity or equity based award shall be settled in cash, the value of such Awards will be paid to Executive in cash. The value of such Equity Performance Awards or Equity Service Awards shall be determined based on the proceeds received by shareholders for a share of PFG common stock in such Reorganization Transaction (with any question pertaining to the value received by shareholders to be conclusively determined by the Board of PFG (or any duly authorized committee thereof), as constituted immediately prior to the Effective Date.

3.4 Unfunded Deferred Compensation. On the Effective Date, Executive shall become fully vested in all benefits previously accrued under any deferred compensation Plan (including any SERP and defined contribution excess plan) that is not qualified under Section 401(a) of the Code. Such benefits shall be paid to the Executive in accordance with the distribution provisions of the applicable Plan and any elections as to the form and time of distributions made by Executive in accordance with the terms of such Plan (or, if no such elections shall be effective, pursuant to the default distribution provisions of the applicable Plan).

Article IV.

Termination of Employment

4.1 Disability.

(a) During the Employment 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 11.7 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 in accordance with subsection (b) below. 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 in the medical judgment of a physician mutually selected by Executive and the Company. If Executive and the Company cannot agree on the physician to be selected, each shall designate a physician, and the two physicians thus designated shall select the physician to make the disability determination.

4.2 Death. Executive's employment shall terminate automatically upon Executive's death during the Employment Period.

4.3 Termination for Cause. During the Employment Period, the Companies may terminate Executive's employment for Cause solely in accordance with all of the substantive and procedural provisions of this Section 4.3.

(a) Definition of Cause. For purposes of this section 4.3, "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 Supplement;

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 or was required by applicable law or administrative regulation, in either case 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.

(b) Procedural Requirements for Termination for Cause. In connection with any attempted termination for Cause during the Employment Period, each of the following procedures shall be strictly observed:

(1) Board Meeting. A meeting of the Board shall be held at which shall be discussed the question of 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 the Board meeting referenced above the Company shall provide Executive and each member of the Board written notice (a "Notice of Consideration") including a detailed description of Executive's 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 Respond. Executive shall have the opportunity to present to the Board a written response to the Notice of Consideration; and

(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. Any Cause determination shall require the affirmative vote of a majority of the members of the Board.

(5) 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 this Section 4.3(b), 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 this Section 4.3(b).

4.4 Good Reason. During the Employment Period, Executive may terminate his or her employment for Good Reason in accordance with the substantive and procedural provisions of this Section 4.4.

(a) Good Reason Definition. For purposes of this Section 4.4, "Good Reason" means the occurrence of any one or more of the following actions or omissions during the Employment Period:

(1) any failure to pay Executive's Base Salary in violation of Section 3.2(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 3.2(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 3.1(a)(i);

(4) any material reduction in aggregate compensation and benefits as provided in Article III;

(5) requiring Executive to be based at any office or location other than the location specified in Section 3.1(a);

(6) any other material breach of this Supplement by any of the Companies;

(7) any Termination of Employment by the Companies that purports to be for Cause, but is not in full compliance with all of the substantive and procedural requirements of this Supplement (any such purported termination shall be treated as a Termination of Employment without Cause for all purposes of this Supplement); or

(8) the failure at any time of a successor to the Companies explicitly to assume and agree to be bound by this Supplement.

(b) Determination of Good Reason. Any reasonable determination by Executive that any of the events specified in Section 4.4(a) 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.

(c) 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 Supplement or preclude Executive from asserting such fact or circumstance in enforcing rights under this Supplement; 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 V.

Company's Obligations Upon Certain Terminations of Employment

5.1 Termination During the Employment Period. If, during the Employment Period the Company terminates Executive's employment other than for Cause or Disability, or Executive terminates employment for Good Reason, the sole obligations of the Companies to Executive under this Supplement shall be as follows:

(a) Separation Payments. The Companies shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article III, the following benefits, at the times specified below:

(i) Accrued Obligations. The Current Obligations shall be paid within 30 days of the Termination Date. All other Accrued Obligations will be paid at the times and in accordance with (x) the terms and conditions specified in Section 5.1(a)(iv), if applicable, and (y) in the case of amounts not described in such Section 5.1(a)(iv), the terms and conditions of the Plan under which such obligations have accrued.

(ii) Prorated Bonus for Year of Termination. Within 45 days after the Termination Date, Executive's Pro-rata Annual Bonus reduced (but not below zero) by the amount of any amount previously paid to Executive with respect to such Annual Bonus for the fiscal year in which the Termination Date occurs;

(iii) Prorated LTIP Bonus. Within 45 days after the Termination Date, Executive's Pro-rata LTIP Bonus reduced (but not below zero) by the amount of any LTIP Bonus previously paid to Executive with respect to the LTIP Performance Periods not completed as of the Termination Date;

(iv) Unvested Plan Benefits, Deferred Pensions and Pension Enhancements. All amounts previously deferred by, or accrued to the benefit of, Executive under any Non-Qualified Plans, whether vested or unvested as of the Termination Date, together with any accrued earnings thereon, to the extent that such amounts and earnings have not been previously paid by the Companies (whether pursuant to Section 3.4 or otherwise), shall be paid to the Executive in accordance with the distribution provisions of the applicable Plan and any elections as to the form and time of distributions made by Executive in

accordance with the terms of such Plan (or, if no such elections shall be effective, pursuant to the default distribution provisions of the applicable Plan). In addition, the Executive shall be entitled to receive (at the same time and in the same form as such amount would have been payable if it were part of the benefit accrued under the terms of the applicable Non-Qualified Plan or, in the case of any additional benefit related to a Qualified Plan, the Non-Qualified Plan which primarily supplements the benefit payable under such Non-Qualified Plan):

(1) The benefit the Executive would have accrued under such defined benefit Plan (whether a Qualified Plan or a Non-Qualified Plan) if Executive had:

(x) become fully vested in all such previously unvested benefits,

(y) for purposes of determining the amount of such benefits, entitlement to early retirement benefits and all other purposes (but not interest credits under any cash balance formula) accrued a number of years of service that is three years greater than the number of years of service actually accrued by Executive, and attained the age that is three years greater than Executive's actual age as of the Termination Date, and

(z) for purposes of determining final average pay under any final average pay formula or annual pay credits (but not interest credits) under any cash balance plan formula, received the lump-sum severance benefits specified in Section 5.1 (a)(v) below as covered compensation in equal monthly installments continuously over a period of 36 months commencing on the Termination Date (or if earlier, the date on which Executive ceased to accrue benefits under any such defined benefit plan).

To the extent that Executive has elected or would otherwise receive a lump sum payment in respect of any benefit under any Non-Qualified Plan or Qualified Plan that is a defined benefit Plan, Executive shall also be paid, within 45 days of the Termination Date (or, if Executive is a key employee for purposes of Section 409A of the Code, on the first business day after the six month anniversary of the Termination Date), the amount, if any, by which the Lump Sum Values of the benefits payable under each such Qualified Plan or Non-Qualified Plan (as enhanced as provided above) exceeds the sum of (x) the amount that is actually payable as a lump sum payment under such defined benefit Plan and (y) the aggregate amounts previously paid (whether pursuant to Section 3.4 or otherwise) under such defined benefit Plan.

(v) Multiple of Salary and Bonus. Within 30 days (or, if necessary, to avoid the imposition on Executive of any additional tax under Section 409A of the Code, six months and one-day) after the Termination Date, an amount equal to three (3.0) times the sum of Executive's (x) Base Salary and (y) the Target Annual 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 determining the amount payable under this clause (v); and

(vi) Stock Incentive Awards. On the Termination Date, 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 and (ii) become fully vested in all shares of restricted stock, performance share, restricted stock units, deferred stock units and similar awards, regardless of whether such awards would otherwise vest based upon the passage of time and the continued performance of services, or upon the achievement of specified performance criteria.

(vii) Life Insurance Opt Out Income. If Executive has waived all life insurance benefits in excess of $50,000 in coverage, Executive shall receive a lump sum amount, within 30 days of the Termination Date, determined using a discount rate equal to that then prevailing for immediate annuities under the rules of the Pension Benefit Guaranty Corporation, equal to the present value of 36 monthly opt-out income payments (based on the monthly amount of such opt-out income payments payable immediately prior to the Effective Date).

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify (or such shorter period necessary for such benefits not to be treated as deferred compensation under Section 409A of the Code and any guidance thereunder issued by the IRS), the Companies shall continue to provide to Executive and Executive's family Welfare Benefits which are at least as favorable as the most favorable plans applicable to Peer Executives who are actively employed after the Termination Date and their families, except and unless Executive has exercised the option to waive all life insurance benefits over $50,000, in which case Executive will continue to have $50,000 in life insurance coverage. The cost of such Welfare Benefits to Executive shall not exceed the cost of such Welfare Benefits to actively employed Peer Executives as applicable from time to time. Executive's rights to elect 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, shall run concurrently with the benefits provided under this Section 5.1(b). Notwithstanding anything herein to the contrary, continuation of any such Welfare Benefits shall cease if and when Executive is eligible to receive any similar Welfare Benefit provided by the Executive's subsequent employer (if any).

(c) Outplacement. The Companies 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. 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 Supplement 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 7.1(a) (concerning reimbursement of certain costs and expenses). Upon receipt from Executive of (i) a written request for an advancement of expenses that 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 Supplement or otherwise, PFG shall advance such expenses to Executive or pay such expenses for Executive, all in advance of the final disposition of any such matter.

5.2 Waiver and Release. Notwithstanding anything herein to the contrary, none of the Companies shall have any obligation to Executive under Section 5.1 or Article VI unless and until Executive executes a release and waiver in favor of PFG and the Companies, in substantially the same form as attached hereto as Exhibit A.

5.3 Termination by the Company for Cause. If the Companies terminate Executive's employment for Cause during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V shall be to pay Executive, pursuant to their then effective Plans, a lump-sum cash amount equal to the Current Obligations, determined as of the Termination Date, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans. Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.4 Termination by Executive Other Than for Good Reason. If Executive elects to retire or otherwise terminate employment during the Employment Period other than for Good Reason, Disability or death, the sole obligations of the Companies to Executive under Articles III and V shall be to pay Executive, pursuant to their then effective Plans, a lump-sum cash amount equal to the Current Obligations, determined as of the Termination Date, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans. Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.5 Termination by the Company for Disability. If the Companies terminate Executive's employment by reason of Executive's Disability during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V shall be as follows:

(a) to pay Executive, pursuant to the Company's then effective Plans, a lump-sum cash amount equal to the Current Obligations determined as of the Termination Date, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms

of the applicable Plans, 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 any Peer Executive.

Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.6 409A Payment Provisions. Notwithstanding anything else in this Supplement to the contrary, no amount payable under this Supplement shall be paid earlier than six months and one day following Executive's Date of Termination if such delay is necessary to avoid the imposition on Executive of an additional tax under Section 409A of the Code, and no continuing benefit shall be allowed to be provided for any period beyond the period for which such benefit can be provided without subjecting Executive to any additional tax under such Section 409A of the Code. To the extent that a benefit is not allowed to be provided to Executive (as opposed to being deferred) due to the immediately preceding sentence, the Company shall pay Executive the economic equivalent of the benefit (including a gross-up in respect of any benefit which would have been provided to Executive on a tax-free basis) that can not be provided, in a single cash payment, as soon as practicable following the earliest date at which such cash payment can be made without subjecting Executive to an additional tax under Section 409A of the Code. Whether and the extent to which any interest or other compensation shall be payable with respect to a delay in payment due to Section 409A shall be determined in accordance with the terms of the applicable program under which such payment is to be made, or if the payment is not made under such a program or such a program is silent on the question of interest, interest shall be payable based on the then current short-term applicable federal rate (as determined under Section 1274(d) of the Code).

5.7 If upon Death. If Executive's employment is terminated by reason of Executive's death during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V 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 the Current Obligations, determined as of the date of Executive's death, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans; 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.

Any LTIP Bonus shall be governed according to the terms of the LTIP.

Article VI.

Certain Additional Payments by the Company

6.1 Gross-Up Payment. If, at any time or from time to time, it shall be determined by the independent financial accounting firm selected by PFG prior to the Effective Date (the "Accountants"), that any payment or other benefit provided to Executive pursuant to Article III or Article V of this Supplement or otherwise (such payments or benefits hereafter called "Parachute Payments") 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, in addition to any other amounts due the Executive, the Companies shall pay or cause to be paid to Executive a tax gross-up payment ("Gross-Up Payment") with respect to all such Excise Taxes and any Taxes payable on or in respect of 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 Taxes imposed, whether by federal, state, local, foreign or other law that constitute Excise Taxes), 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 sum, expressed as a decimal fraction, of the effective marginal rates of any Taxes (including any Excise Taxes) imposed on or in respect of the Gross-Up Payment. 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 in any jurisdiction in which Executive is subject to taxation.

The Gross-Up Payment is intended to compensate Executive for all such Excise Taxes and any 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 all events by the time Executive is required to make payment to the IRS of such Excise Taxes.

6.2 Limitation on Gross-Up Payments.

(a) To the extent possible, any payments or other benefits to Executive pursuant to Article III and Article V of this Supplement shall be allocated as consideration for Executive's entry into the covenants of Article IX.

(b) Notwithstanding any other provision of this Article VI, if the aggregate amount of the Parachute Payments that, but for this Section 6.2, would be payable to Executive, does not exceed 110% of Safe Harbor Amount (as defined below), then no Gross-Up Payment shall be made to Executive and the aggregate amount of Parachute Payments payable to Executive shall be reduced (but not below the Safe Harbor Amount) to the largest amount which would both (i) not cause any Excise Tax to be payable by Executive and (ii) not cause any 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

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highest effective marginal rate of Taxes in any jurisdiction in which Executive is subject to taxation.

(c) For purposes of this Supplement, "Safe Harbor Amount" means the product of (i) 2.99 times (ii) Executive's "base amount" as defined in Section 280G(b)(3) of the Code (or any successor provision thereto) and any regulations promulgated thereunder.

6.3 Additional Gross-up Amounts. If, for any reason (including pursuant to published rulings of the IRS or a final judgment of a court of competent jurisdiction), the Accountants determine that the amount of Excise Taxes payable by Executive is greater than the amount initially determined pursuant to Section 6.1, then the Companies shall, subject to Sections 6.2 and 6.4, 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 6.1 or 6.4, multiplied by

(b) the Gross-Up Multiple.

6.4 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 Parachute Payments in an amount in excess of the amount of such Excise Taxes determined in accordance with Section 6.1. 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 Accountants ("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 Companies, and

(iii) direct Executive pursuant to Section 6.4(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 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), any of the Companies 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 any Company notifies Executive in writing that such Company desires Executive to contest an IRS Claim or to pursue a Refund Claim, Executive shall:

(i) give such 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 such Company reasonably requests in writing from time to time, including accepting legal representation with respect thereto by an attorney selected by such Company, subject to the approval of Executive (which approval shall not be unreasonably withheld or delayed),

(iii) cooperate with such Company in good faith to contest such IRS Claim or pursue such Refund Claim, as applicable,

(iv) permit such Company to participate in any proceedings relating to such IRS Claim or Refund Claim, as applicable, and

(v) contest such IRS Claim or prosecute such 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 such Company may from time to time determine in its discretion.

Such 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) such 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) Such 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 any Company directs Executive to pay an IRS Claim and pursue a Refund Claim, such 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 other Taxes, 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 such 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 other Taxes, including related interest and penalties, imposed as a result of such payment of costs and expenses.

6.5 Refunds. If, after the receipt by Executive or the IRS of any payment or advance of Excise Taxes or other Taxes by any Company pursuant to this Article, Executive receives any refund with respect to such Excise Taxes, Executive shall (subject to such Company's complying with any applicable requirements of Section 6.4) promptly pay such 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 a Company pursuant to Section 6.4 or receipt by the IRS of an amount paid by a Company on behalf of the Executive pursuant to Section 6.4, a determination is made that Executive shall not be entitled to any refund with respect to such claim and such Company does not notify Executive in writing of its intent to contest such determination within 30 days after such 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 6.4(d).

Article VII.

Expenses, Interest and Dispute Resolution

7.1 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, or obtain benefits under this Supplement, the Companies shall reimburse Executive on a current basis (in accordance with Section 7.1(b)) for such fees and expenses and provide a gross-up payment related to any Taxes arising in respect of such reimbursement.

(b) Reimbursement of legal fees and expenses and gross-up payments related to such legal fees 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 any Company hereunder, and the Companies establish that Executive had no reasonable basis for Executive's claim hereunder, or for Executive's response to any 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.

7.2 Interest. If any amount due to Executive under this Supplement is not paid 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.

7.3 Binding Arbitration. Any dispute, controversy or claim arising out of or in connection with or relating to this Supplement 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. The Company involved in the dispute, controversy or claim, or PFG 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 by the Companies, except that Executive's expenses shall be handled according to Section 7.1. 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 7.3 or elsewhere in this Supplement, 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. Notwithstanding anything to the contrary contained in this Section 7.3 or elsewhere in this Supplement, either party may seek relief in the form of specific performance, injunctive or other equitable relief in order to enforce the decision of the arbitrators. The parties agree that in any arbitration commenced pursuant to this Supplement, 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 VIII.

No Set-off or Mitigation

8.1 No Set-off by Company. Executive's right to receive when due the payments and other benefits provided for under this Supplement 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. Any claim which the Company may have against Executive, whether for a breach of this Supplement 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.

8.2 No Mitigation. Executive shall not have any duty to mitigate the amounts payable by the Company under this Supplement by seeking new employment or self-employment following termination. Except as specifically otherwise provided in this Supplement, all amounts payable pursuant to this Supplement 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 IX.

Restrictive Covenants

Notwithstanding anything else contained in this Supplement (other than as expressly provided below in this Article IX) to the contrary, Executive shall be bound by the restrictive covenants contained in Article VII of the Employment Agreement as though such covenants (and any definitions in the Employment Agreement referenced in such Article VII) were incorporated herein by reference and made a part hereof; provided, however, that if Executive's employment is terminated during the 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 5.1, then Executive may waive ("Severance Waiver") all his rights to under Section 5.1(a)(v) and thereby be released from any obligations under this Article IX of this Supplement (or Article VII of the Employment Agreement). Any such Severance Waiver shall be in writing and shall be delivered to the Company within three days of the termination of Executive's employment (and in any event prior to receipt of Executive's receipt of any severance payments or benefits waived by the Severance Waiver).

Article X.

Non-Exclusivity of Rights

10.1 Waiver of Certain Other Rights. To the extent that lump sum cash severance payments are made to Executive pursuant to Article V, Executive hereby waives the right to receive severance payments or severance benefits under any other Plan or agreement with any of the Companies; provided, however, that if Executive's employment was terminated prior to the

Effective Date but is deemed to terminate after the Effective Date pursuant to Section 1.3, Executive shall be entitled to retain any severance payments or benefits paid in connection with such termination, but such amounts shall apply as an offset against the benefits payable under Article V hereof.

10.2 Other Rights. Except as expressly provided in Section 10.1 or elsewhere in this Supplement, this Supplement 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 limit or otherwise affect such rights as Executive may have under any other agreements with any of the Companies. 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.

10.3 No Right to Continued Employment. Nothing in this Supplement shall guarantee the right of Executive to continue in employment, and each of the Companies retains the right to terminate the Executive's employment at any time for any reason or for no reason.

Article XI.

Miscellaneous

11.1 No Assignability. This Supplement is personal to Executive and without the prior written consent of each of the Companies shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Supplement shall inure to the benefit of and be enforceable by Executive's legal representatives.

11.2 Successors. This Supplement shall inure to the benefit of and be binding upon each of the Companies and its respective successors and assigns. Each of the Companies 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 such Company to assume expressly and agree to perform this Supplement in the same manner and to the same extent that such Company would have been required to perform it if no such succession had taken place. Any successor to the business or assets of any of the Companies which assumes or agrees to perform this Supplement by operation of law, contract, or otherwise shall be jointly and severally liable under this Supplement with such Company as if such successor were the Company.

11.3 Payments to Beneficiary. If Executive dies before receiving amounts to which Executive is entitled under this Supplement, such amounts shall be paid in a lump sum to one or more beneficiaries designated in writing by Executive under the Companies' group life insurance plan (each, a "Beneficiary"). If no such beneficiary is so designated, the Executive's estate shall be his or her Beneficiary. If Executive participates in more than one group life insurance plan, Executive's Beneficiary shall be the person(s) named as his or her beneficiary under whichever such plan provides Executive the largest amount of insurance coverage.

11.4 Non-Alienation of Benefits. Benefits payable under this Supplement 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 shall be void.

11.5 Severability. If any one or more Articles, Sections or other portions of this Supplement 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.

11.6 Amendments. Except as expressly provided in the second sentence hereof, this Supplement may not be amended or modified except by written instrument executed by or on behalf of each of the Companies and Executive. Notwithstanding the foregoing, built subject to the following sentence, the Board or any duly authorized committee thereof may amend this Supplement at any time or from time to time, in any way (other than an amendment that has the effect of terminating this Supplement other than in the manner specified in Article I) without the consent of Executive, but no such amendment shall take effect until the first anniversary after it is approved or adopted by the Board or such committee and shall be of no force and effect (unless the Executive otherwise elects in writing) if either (i) the Effective Date or (ii) a Pre-Change of Control Event occurs prior to the time such amendment would otherwise have become effective; provided, however, that if the Board determines in good faith that a Pre-Change of Control Event will not result in a Change of Control, such an amendment shall become effective as of the later of (x) the date the Board makes that determination or (ii) the first anniversary of the date such amendment was adopted. If the Board acts to amend this Supplement under the authority set forth in the immediately preceding sentence without the consent of Executive, Executive may, within 90 days of receipt of written notice of the adoption of such amendment elect, by written notice to the Company, to have this Supplement declared void and without effect, and to have the terms and conditions of his employment governed in all circumstances (including those that would otherwise have been governed pursuant to the terms of this Supplement, governed solely and exclusively by the terms of the Employment Agreement).

11.7 Notices. All notices and other communications under this Supplement 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 Companies.

If to any Company:

Principal Financial Group, Inc.
711 High Street
Des Moines, Iowa 50392
Attention: Karen E. Shaff

Facsimile No.: (515) 235-9852

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.

11.8 Counterparts. This Supplement 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.

11.9 Governing Law. This Supplement shall be interpreted and construed in accordance with the laws of the State of Iowa, without regard to its choice of law principles.

11.10 Captions. The captions of this Supplement are not a part of the provisions hereof and shall have no force or effect.

11.11 Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine.

11.12 Tax Withholding. The Companies may withhold from any amounts payable under this Supplement 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.

11.13 Waiver. Executive's failure to insist upon strict compliance with any provision of this Supplement shall not be deemed a waiver of such provision or any other provision of this Supplement. A waiver of any provision of this Supplement 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.

11.14 Joint and Several Liability. The obligations of the Companies (and of any successor to any of the Companies) to Executive under this Supplement shall be joint and several.

11.15 Entire Agreement. This Supplement contains the entire understanding of each of the Companies and Executive with respect to its subject matter, and supercedes any prior agreement whether written or oral, dealing with the subject matter hereof including, without limitation, the Prior Agreement.

IN WITNESS WHEREOF, Executive, Principal Financial Group, Inc., Principal Financial Services, Inc., and Principal Life Insurance Company have executed this Change of Control Supplement to Employment Agreement for J. Barry Griswell.

EXECUTIVE

/s/ J. Barry Griswell
J. Barry Griswell

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ William T. Kerr
William T. Kerr
Chairman, Human Resources Committee

PRINCIPAL FINANCIAL SERVICES, INC.

By: /s/ William T. Kerr
William T. Kerr
Chairman, Human Resources Committee

PRINCIPAL LIFE INSURANCE COMPANY

By: /s/ William T. Kerr
William T. Kerr
Chairman, Human Resources Committee

EXHIBIT A

WAIVER AND RELEASE

This agreement, release and waiver (the "Release"), made as of the day of , (the "Effective Date"), is made by and among Principal Financial Group, Inc., a Delaware corporation, Principal Financial Services, Inc., an Iowa corporation, Principal Life Insurance Company, an Iowa corporation ("Company"), and ("Executive").

WHEREAS, the Company and Executive have entered into a Change of Control Supplement to Employment Agreement dated as of [January 1, 2006] ("Supplement");

NOW THEREFORE, in consideration for receiving benefits and severance pursuant to the Supplement, and in consideration of the representations, covenants and mutual promises set forth in this Release, the parties agree as follows:

1. Release. Except with respect to the Company' obligations under the Supplement, the Executive, and Executive's heirs, executors, assigns, representatives, agents, legal representatives, and personal representatives, hereby releases, acquits and forever discharges the Company, its agents, subsidiaries, affiliates, respective officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the day prior to execution of this Release, 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 the Company; the Executive's termination of employment with the Company; claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Company, vacation pay, fringe benefits, expense reimbursements, sabbatical benefits, severance benefits, or any other form of compensation or equity; claims pursuant to any federal, state, local law, statute, ordinance or 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; fraud; defamation; harassment; emotional distress; or breach of the implied covenant of good faith and fair dealing. This Release does not apply to any benefits to which the Executive may be entitled under a Company sponsored tax qualified retirement or savings plan.

2. Release by Company. Except with respect to the Executive's obligations under the Supplement, including but not limited to the covenants entered into pursuant to the eligibility requirements of the Supplement, the Company, and its agents, subsidiaries, attorneys, representatives, successors, and assigns, hereby release, acquit and forever

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discharge the Executive, and Executive's heirs, executors, assigns, representatives, agents, legal representatives, and personal representatives, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the day prior to execution of this Release, including but not limited to: any and all claims and demands directly or indirectly arising out of or in any way connected with the Executive's employment with the Company.

3. No Inducement. Executive agrees that no promise or inducement to enter into this Release has been offered or made except as set forth in this Release, that the Executive is entering into this Release without any threat or coercion and without reliance or any statement or representation made on behalf of the Company or by any person employed by or representing the Company, except for the written provisions and promises contained in this Release.

4. Damages. The parties agree that damages incurred as a result of a breach of this Release will be difficult to measure. It is, therefore, further agreed that, in addition to any other remedies, equitable relief will be available in the case of a breach of this Release. It is also agreed that, in the event of a breach of this Release by Executive, the Company may withhold, retain, or require reimbursement of all or any portion of the benefits and payments under the Supplement.

5. Advice of Counsel; Time to Consider; Revocation. Executive acknowledges the following:

(a) Executive has read this Release, and understands its legal and binding effect. Executive is acting voluntarily and of Executive's own free will in executing this Release.

(b) Executive has been advised to seek and has had the opportunity to seek legal counsel in connection with this Release.

(c) Executive was given at least 21 days to consider the terms of this Release before signing it.

Executive understands that, if Executive signs the Release, Executive may revoke it within seven days after signing it. Executive understands that this Release will not be effective until after the seven-day period has expired.

6. Severability. If all or any part of this Release is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any other portion of this Release. Any section or a part of a section declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of the section to the fullest extent possible while remaining lawful and valid.

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7. Amendment. This Release shall not be altered, amended, or modified except by written instrument executed by the Companies and the Executive. A waiver of any portion of this Release shall not be deemed a waiver of any other portion of this Release.

8. Counterparts. This Release may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

9. Headings. The headings of this Release are not part of the provisions hereof and shall not have any force or effect.

10. Applicable Law. The provisions of this Release shall be interpreted and construed in accordance with the laws of the State of Iowa without regard to its choice of law principles.

IN WITNESS WHEREOF, the parties have executed this Release as of the dates specified below.

EXECUTIVE

____
DATE: _______________

PRINCIPAL FINANICAL GROUP, INC.

By: __________________________
Title: _________________________
DATE: _________________________

PRINCIPAL FINANCIAL SERVICES, INC.

By: __________________________
Title: _________________________
Date: _______________

PRINCIPAL LIFE INSURANCE COMPANY

By: __________________________
Title: _________________________
DATE: _______________

EXHIBIT 10.13

PRINCIPAL FINANCIAL GROUP, INC.
AND
PRINCIPAL LIFE INSURANCE COMPANY

CHANGE OF CONTROL EMPLOYMENT AGREEMENT

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PRINCIPAL FINANCIAL GROUP, INC.
AND
PRINCIPAL LIFE INSURANCE COMPANY

CHANGE-OF-CONTROL EMPLOYMENT AGREEMENT

THIS AGREEMENT dated as of February 28, 2006 (the "Agreement Date") is made by and among Principal Financial Group, Inc., a Delaware corporation (together with all successors thereto, "PFG"), 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 previously determined that it is in the best interests of the Companies and their stockholders to assure that the Companies will have the continued service of Executive. The Companies also concluded that 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 PFG, 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. To that end, the Companies and Executive previously entered into a Change of Control Employment Agreement (the "Prior Agreement").

The parties have determined that the Prior Agreement should be modified to simplify its operation, clarify certain provisions and otherwise conform to changes in best practices for such arrangements arising since the execution of the Prior Agreement. This Agreement is intended to accomplish these objectives, and shall supercede the Prior Agreement in its entirety.

Article I.

Term

1.1 Term. This Agreement shall have an initial term commencing on the Agreement Date and ending on the second anniversary of the Agreement Date. On the second anniversary and each subsequent anniversary of the Agreement Date, the Agreement Term shall automatically be extended for one additional year unless prior thereto the Company shall have delivered written notice (an "Expiration Notice") to Executive that the Agreement shall expire at the end of its then current term (including any extensions of the initial term that having previously occurred) (the "Expiration Date"). Notwithstanding the foregoing, if an Effective Date occurs before the Expiration Date, then the Agreement Term shall automatically be extended to the second anniversary of the Effective Date and shall then expire. If an Expiration Notice is given but an Effective Date or a Pre-Change of Control Event occurs before the Expiration Date, then the Expiration Notice shall be void and of no further effect. However, if a Pre-Change of Control Event does not culminate in a Consummation Date, then the Expiration Notice shall be reinstated and the Agreement Term shall expire on the later of (i) the originally-specified Expiration Date or (ii) the date the Board determines in good faith that Pre-Change of Control Event will not result in a Change of Control.

1.2 Effective Date. Except as otherwise expressly provided herein, this Agreement shall not have any affect until the occurrence of an Effective Date. Notwithstanding anything else in the Agreement to the contrary (other than Section 1.3 hereof), the provisions of this Agreement other than Article IX shall have no force and effect unless Executive is an employee of the Companies continuously from the Agreement Date to the Effective Date.

1.3 Actions Taken Prior to the Effective Date at the Direction or Request of a Third Party. Notwithstanding anything else contained in this Agreement (including, without limitation, Section 1.2 hereof), if following or in connection with a Pre-Change of Control Event, any Person other than the Board or any of the Companies directs, requests or otherwise causes or seeks to have occur a termination of Executive's employment with the Companies or an adverse change in the terms and conditions of Executive's employment with the Companies prior to an Effective Date, and such action results, directly or

indirectly, in the termination of Executive's employment or an adverse change in the terms and conditions of Executive's employment, solely for purposes of this Agreement and determining Executive's rights and entitlements hereunder, any such action shall be deemed not to have occurred on the date actually taken, but instead to be taken immediately following the Effective Date, with the consequence that (i) in the case of a termination of employment, Executive shall be deemed to have been terminated following the Effective Date, (and unless such termination would qualify as a termination for Cause hereunder, Executive shall be entitled to the benefits payable pursuant to Article V hereof), and (ii) in the case of an adverse change in employment terms and conditions, shall not be taken into account in determining Executive's terms and conditions of employment in any period prior to the Effective Date and shall be deemed to have occurred immediately after the Effective Date for purposes of determining whether Executive has Good Reason to terminate his employment hereunder and to receive the benefits payable pursuant to Article V.

Article II.

Certain Definitions

As used in this Agreement, the terms specified below shall have the following meanings:

2.1 "Accountants" – see Section 6.1.

2.2 "Accrued Annual Bonus" means the amount of any Annual Bonus earned but not yet paid with respect to any Company's latest fiscal year ended prior to Executive's Termination Date.

2.3 "Accrued Base Salary" means the amount of Executive's Base Salary that is accrued but not yet paid as of the Termination Date.

2.4 "Accrued LTIP Bonus" means the amount of any LTIP Bonus earned but not paid on or prior to Executive's Termination Date.

2.5 "Accrued Obligations" means, as of any date, Executive's Current Obligations 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), including, without limitation, amounts earned but deferred under the LTPP.

2.6 "Affiliate" of any Person means any other Person that directly or indirectly controls, is controlled by, or is under common control with, the first Person. 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.

2.7 "Agreement Date" — see the introductory paragraph of this Agreement.

2.8 "Annual Bonus" — see Section 3.2(b).

2.9 "Annual Performance Period" means the calendar year or any other period of time not greater than 12 months specifically designated as the applicable annual performance period in accordance with any annual bonus arrangement applicable to Executive.

2.10 "Article" means an article of this Agreement.

2.11 "Base Salary" — see Section 3.2(a).

2.12 "Beneficial Owner" means such term as defined in Rule 13d-3 of the SEC under the Exchange Act.

2.13 "Beneficiary" — see Section 11.3.

2.14 "Board" means the Board of Directors of PFG or, from and after the effective date of a Reorganization Transaction, the Board of Directors of the Surviving Corporation.

2.15 "Bonus Pro-ration Fraction" —see the definition of Pro-rata Annual Bonus.

2.16 "Cause" — see Section 4.3.

2.17 "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 40% or more of the common stock or of Voting Securities representing 40% or more of the combined voting power of all Voting Securities of PFG (such an SEC Person, a "40% Owner"); or

(b) the PFG Incumbent Directors cease for any reason to constitute at least a majority of the Board;

(c) consummation of a merger, reorganization, consolidation, or similar transaction (any of the foregoing, a "Reorganization Transaction") where the Persons who were the direct or indirect owners of the outstanding common stock and Voting Securities of PFG immediately before such Reorganization Transaction are not or do not become, immediately after the consummation of such Reorganization Transaction, the direct or indirect owners of 60% of each of (i) the then-outstanding common stock of the Surviving Corporation and (ii) 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 PFG immediately before such Reorganization Transaction; or

(d) approval by PFG's stockholders and consummation of a plan or agreement for the sale or other disposition of all or substantially all of the consolidated assets of PFG or a plan of liquidation of PFG.

Notwithstanding the occurrence of any of the foregoing events, for purposes of this Agreement, a Change of Control shall not be deemed to have occurred for purposes of this Agreement, with respect to Executive if, in advance of such event, Executive agrees in writing that such event shall not constitute a Change of Control.

2.18 "Code" means the Internal Revenue Code of 1986, as amended.

2.19 "Company" – see the introductory paragraph to this Agreement.

2.20 "Company Certificate" — see Section 6.4(a).

2.21 "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 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 in connection with the sale of financial 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 determination (or, if earlier, Executive's Termination Date) 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.

2.22 "Current Obligations" means the sum of the amounts of Executive's Accrued Annual Bonus, Accrued Base Salary, Accrued LTIP Bonus and any accrued but unpaid paid time off; provided that, if any amount that would otherwise be treated as a Current Obligation would, if paid when specified hereunder, constitute deferred compensation within the meaning of Section 409A of the Code, such amount shall not be treated as a Current Obligation.

2.23 "Disability" – see Section 4.1(b).

2.24 "Effective Date" means the date on which a Change of Control first occurs during the term of the Agreement.

2.25 "Employment Period" means the period commencing on the Effective Date and ending on the second anniversary of the Effective Date; provided that, in the event Executive's employment terminates after the Effective Date, in circumstances under which Executive becomes entitled to receive the payments described in Section 5.1 or due to Executive's death or Disability, the Employment Period shall end on the date of such termination of employment.

2.26 "Equity Performance Award" – see Section 3.3.

2.27 "Equity Service Award" – see Section 3.3.

2.28 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.29 "Excise Taxes" — see Section 6.1.

2.30 "40% Owner" see paragraph (a) of the definition of "Change of Control."

2.31 "Good Reason" — see Section 4.4.

2.32 "Gross-Up Multiple" — see Section 6.1.

2.33 "Gross-Up Payment" — see Section 6.1.

2.34 "including" means including without limitation.

2.35 "Incumbent Directors" means, as of any date, the individuals then serving as members of the Board who were members of the Board as of the Agreement Date; provided that any person appointed or elected as a member of the Board after the Agreement Date whose election, or nomination for election, by stockholders of PFG or the Surviving Corporation, as applicable, was approved by a vote or written consent of at least a majority of the directors

then comprising the Incumbent Directors shall also thereafter be considered an Incumbent Director, unless the initial assumption of office of such subsequently-elected or appointed director was in connection with a proxy solicitation or contest by any Person (other than any of the Companies) to elect or remove one or more members of the Board.

2.36 "IRS" means the Internal Revenue Service of the United States of America.

2.37 "IRS Claim" — see Section 6.4.

2.38 "LTIP" means the Principal Financial Group Stock Incentive Plan, the Principal Financial Group 2005 Stock Incentive Plan and any other or successor long-term incentive plan (other than the LTPP) established by any of the Companies or any Surviving Corporation.

2.39 "LTIP Award" means a grant under the LTIP.

2.40 "LTIP Bonus" means the amount paid or earned in respect of an LTIP Award.

2.41 "LTIP Performance Period" means the performance period applicable to an LTIP Award, as designated in accordance with the LTIP.

2.42 "LTIP Target Award" means, in respect of any LTIP Award, 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.

2.43 "LTPP" means the 1999 Long-Term Performance Plan, as may be amended from time to time.

2.44 "Lump Sum Value" of an annuity payable to Executive pursuant to a defined benefit plan (whether or not a Qualified Plan or a Non-Qualified Plan) means, as of a specified date, the present value of a single life annuity, payable under such plan and determined, as of such date, under generally accepted actuarial principles (i) assuming for the purposes of eligibility for payment of benefits prior to normal retirement date that Executive had completed at least 10 years of service and had attained age 57 or Executive's actual age, if greater (but using actual age for otherwise determining actuarial equivalent present value), (ii) using 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 (iii) 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. The immediate annuity assumptions shall be applied solely for purposes of determining the actuarial assumptions applicable to the Lump Sum Value calculation and not for the purpose of determining when an annuity would commence. The value of any post-retirement cost-of-living adjustment to any annuity payable pursuant to a defined benefit plan shall be included in the Lump Sum Value and shall be reduced to present value in accordance with the foregoing assumptions and in such manner as shall be determined by the outside actuarial firm engaged by the Company immediately prior to the Effective Date for purpose of the defined benefit plan. Notwithstanding the foregoing, if any 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 single life annuity available under such plan, then "Lump Sum Value" in respect of the benefit payable under such Plan shall mean such lump sum amount.

2.45 "Non-Qualified Plan" means a plan that is not qualified under Section 401(a) of the Code.

2.46 "Notice of Consideration" — see Section 4.3.

2.47 "Notice of Termination" means a written notice given in accordance with Section 11.7 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.

2.48 "Parachute Payment" — see Section 6.1.

2.49 "Peer Executive" means each officer of any of the Companies who is a party to a change of control agreement having terms generally consistent with those of this Agreement and all executive officers (and all other employees performing policy making functions, regardless of title) at any organization that is a successor or interest to, or the direct or indirect parent of, any of the Companies.

2.50 "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.

2.51 "PFG" – see the introductory paragraph to this Agreement.

2.52 "Plans" means plans, programs, policies, practices or procedures of the Companies.

2.53 "Pre-Change of Control Event" means the occurrence of any one or more of the following: (i) the commencement of a tender offer for Voting Securities of PFG, consummation of which would result in a SEC Person becoming a 40% owner; (ii) a proxy solicitation or contest for the election of one or more Board members commenced by a person other than PFG; (iii) one of the Companies enters into an agreement the consummation of which would constitute a Reorganization Transaction or would otherwise result in a Change of Control; or (iv) any other event, transaction or occurrence that the Board declares to be a Pre-Change of Control Event.

2.54 "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 or Termination Date occurs, as applicable, but disregarding any reduction in such Target Annual Bonus that would qualify as a 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 or Termination Date, as applicable and the denominator of which equals 365 (the "Bonus Pro-ration Fraction").

2.55 "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 Executive's Termination Date, as applicable:

(a) For any LTIP Award that was granted in the fiscal year in which the Termination Date occurs an amount calculated by multiplying the LTIP Target Award for such LTIP 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 Termination Date and the denominator of which is 365.

(b) For any other LTIP Award not described in subsection (a) above of this definition, the amount that would be payable thereunder based on actual performance through the most recent date as of which the achievement of the performance criteria can reasonably be measured, projected out until the end of the stated performance period, assuming that such most recent measurement date was the end of the applicable performance period.

2.56 "Qualified Plan" means a plan that is qualified under Section 401(a) of the Code.

2.57 "Refund Claim" — see Section 6.4.

2.58 "Reorganization Transaction" — see clause (c) of the definition of "Change of Control."

2.59 "SEC" means the United States Securities and Exchange Commission.

2.60 "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 of any Company or any employee benefit plan (or any related trust) of PFG or any of its Affiliates.

2.61 "Section" means, unless the context otherwise requires, a section of this Agreement.

2.62 "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).

2.63 "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, the highest corporation in an unbroken chain of corporations that includes PFG or any successor in interest thereto.

2.64 "Target Annual Bonus" as of a certain date means the amount equal to the product of (i) Executive's Base Salary determined as of such date multiplied by (ii) the percentage of such Base Salary which Executive would have been entitled to receive as an Annual Bonus for the Annual Performance Period in which such determination is being made if the performance goals established with respect thereto were achieved at the 100% level as of the end of the Annual Performance Period; provided, however, that no reduction in Executive's Base Salary or Annual Bonus that would qualify as Good Reason shall be taken into account for purposes of determining Target Annual Bonus pursuant to this definition.

2.65 "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.

2.66 "Termination Date" means the date of the receipt of a Notice of Termination by Executive (if such Notice is given by the Company) or by or on behalf of the Companies (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 4.1(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.

2.67 "Termination of Employment" means any termination of Executive's employment with each of the Companies, whether such termination is initiated by the Companies or by Executive.

2.68 "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.

2.69 "Welfare Benefits" means the following (and only the following) welfare benefits, whether or not provided under a Plan: accidental death and dismemberment (AD&D), dental, medical, vision and group-term life insurance.

Article III.

Employment Period

3.1 Position and Duties.

(a) Change of Control. During the Employment Period, (i) Executive's position (including offices, titles, responsibilities and reporting requirements, 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 and (ii) Executive's services shall be performed at the location where Executive was employed immediately before the Effective Date or any other location no more than 50 miles from such former location.

(b) Executive's Obligations. During the Employment Period, Executive agrees to devote Executive's full attention and business time (other than during any periods of paid time off, sick leave or disability to which Executive is entitled) to the business and affairs of the Companies and, to the extent necessary to discharge the duties

assigned to Executive in accordance with this Agreement, to use Executive's commercially reasonable best efforts to perform such duties. During the 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 do not significantly interfere with the performance of Executive's duties under this Agreement. To the extent that any such activities were conducted by Executive immediately prior to the Effective Date and such conduct was not in violation of any Plans of any of the Companies, 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.

3.2 Compensation.

(a) Base Salary. During the Employment Period, the Companies shall pay or cause to be paid to Executive an annual base salary in cash, which shall be paid in a manner consistent with the Companies 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 Companies in respect of the 12-month period immediately before the Effective Date (such annual rate salary, the "Base Salary"). During the Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time in such manner as shall be substantially consistent with increases in base salary awarded to Peer Executives. Any increase in Base Salary shall not limit or reduce any other obligation of the Companies 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.

(b) Annual Bonus. In addition to Base Salary, the Companies shall provide to Executive the opportunity to receive payment of regular bonuses in accordance with this Section 3.2(b). If , immediately prior to the Effective Date, Executive participated in a Plan that provided for an annual bonus in respect of each Annual Performance Period (an "Annual Bonus"), then the Companies shall afford Executive the opportunity to receive an Annual Bonus with respect to each Annual Performance Period which ends during the Employment Period. If, immediately prior to the Effective Date, Executive participated in a Plan that provided for a bonus payable in respect of a performance period of less than 12 months (a "Periodic Bonus Period"), then the Companies shall afford Executive the opportunity to receive a bonus (a "Periodic Bonus") for each comparable period ending during the Employment Period. Executive's bonus opportunity in respect of any such Annual Performance Period or Periodic Performance Period shall not be less than, and shall have target performance goals no more difficult to achieve than, those in effect with respect to the Annual Performance Period or Periodic Performance Period, as the case may be, in effect immediately prior to the Effective Date.

(c) Other Compensation and Benefits. In addition to Base Salary and Annual Bonus, throughout the Employment Period, the Companies shall provide the following other compensation and benefits to Executive, provided that, in no event shall such other compensation and benefits be materially less favorable, in the aggregate, than the most favorable compensation and benefits, but (exclusive of Base Salary and Annual Bonus)

provided by the Companies to Executive (including any such compensation and benefits provided under Plans, but (exclusive of Base Salary and Annual Bonus)) 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 to Executive 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 targets applicable with respect to the Executive's LTIP Awards outstanding immediately prior to the Effective Date, and with target performance goals that are not substantially more difficult to obtain, on average, than 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 Peer Executives;

(3) Welfare Benefit Plans. Executive and Executive's family shall be eligible to participate in, and receive any Welfare Benefits provided by the Company to any Peer Executive and his or her family;

(4) Fringe Benefits. Executive shall be entitled to fringe benefits in accordance with the most favorable Plans applicable to Peer Executives;

(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;

(6) Vacation. Executive shall be entitled to paid time off in accordance with the most favorable Plans applicable to Peer Executives.

3.3 Stock Incentive Awards. On the Effective Date, any then outstanding equity or equity-based awards other than stock options or stock appreciation rights held by, or credited to, Executive that would, in accordance with their terms, generally become vested, if at all, upon the achievement of specified performance objectives (and not on the basis of the passage of time and the continued performance of service) ("Equity Performance Awards") shall be converted into a number of shares of restricted stock or restricted stock units of PFG (or, in the case of a Reorganization Transaction, in respect of the common stock of the Surviving Corporation) that will vest, if at all, subject to Executive's continued performance of services, on the date on which the corresponding performance period would otherwise have expired. The number of such shares of restricted stock and restricted stock units shall be determined based on actual performance against the stated performance criteria through the Effective Date, projected out to the end of the corresponding performance period, but shall not be adjusted due to the fact that the Effective Date occurs prior to the end of the stated performance period. Each of Executive's outstanding stock options or stock appreciation rights and any outstanding equity or equity-based

awards held by, or credited to, Executive that would, in accordance with their terms, generally become vested, if at all, on the basis of the passage of time and the continued performance of service (such options, rights and other awards collectively referred to as the "Equity Service Awards") shall continue to be honored in accordance with the terms of such award, except that, if the Effective Date occurs in connection with a Reorganization Transaction, such Equity Service Awards shall be converted into equity or equity-based awards of a similar type and nature related to, the common stock of the Surviving Corporation using the same exchange ratio as is applicable to shareholders of PFG (or, where shareholders receive any consideration other than in common stock) based on the relative values of the PFG and Surviving Corporation common stock on or about the date the transaction closes, using valuation principals permitted under Treas. Reg. §1.424-1. Notwithstanding the foregoing provisions of this Section 3.3 any conversion into equity or equity-based awards related to the common stock of the Surviving Corporation shall only occur to the extent the agreement pursuant to which the Reorganization Transaction is effected provides for such conversion, and, if such agreement does not provide for such a conversion as to some or all of Executive's Equity Performance Awards or Equity Service Awards, then such portion of Executive's Equity Performance Awards or Equity Service Awards (regardless of the terms upon which such Awards would otherwise vest) shall become fully vested, exercisable and /or distributable upon the Effective Date, and unless the Human Resources Committee of the Board (or such other committee of the Board to which the Board shall have delegated authority for such decision), as constituted immediately prior to a Reorganization Transaction (the "Committee"), determines in accordance with the LTIP that no equity or equity based award shall be settled in cash, the value of such Awards will be paid to Executive in cash. The value of such Equity Performance Awards or Equity Service Awards shall be determined based on the proceeds received by shareholders for a share of PFG common stock in such Reorganization Transaction (with any question pertaining to the value received by shareholders to be conclusively determined by the Board of PFG (or any duly authorized committee thereof), as constituted immediately prior to the Effective Date.

3.4 Unfunded Deferred Compensation. On the Effective Date, Executive shall become fully vested in all benefits previously accrued under any deferred compensation Plan (including any SERP and defined contribution excess plan) that is not qualified under Section 401(a) of the Code. Such benefits shall be paid to the Executive in accordance with the distribution provisions of the applicable Plan and any elections as to the form and time of distributions made by Executive in accordance with the terms of such Plan (or, if no such elections shall be effective, pursuant to the default distribution provisions of the applicable Plan).

Article IV.

Termination of Employment

4.1 Disability.

(a) During the Employment 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 11.7 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 in accordance with subsection (b) below. 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 in the medical judgment of a physician mutually selected by Executive and the Company. If Executive and the Company cannot agree on the physician to be selected, each shall designate a physician, and the two physicians thus designated shall select the physician to make the disability determination.

4.2 Death. Executive's employment shall terminate automatically upon Executive's death during the Employment Period.

4.3 Termination for Cause. During the Employment Period, the Companies may terminate Executive's employment for Cause solely in accordance with all of the substantive and procedural provisions of this Section 4.3.

(a) Definition of Cause. For purposes of this section 4.3, "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 or was required by applicable law or administrative regulation, in either case 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.

(b) Procedural Requirements for Termination for Cause. In connection with any attempted termination for Cause, each of the following procedures shall be strictly observed:

(1) Board Meeting. A meeting of the Board shall be held at which shall be discussed the question of 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 the Board meeting referenced above the Company shall provide Executive and each member of the Board written notice (a "Notice of Consideration") including a detailed description of Executive's 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 Respond. Executive shall have the opportunity to present to the Board a written response to the Notice of Consideration; and

(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. Any Cause determination shall require the affirmative vote of a majority of the members of the Board.

(ii) 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 4.3(b), 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 4.3(b).

4.4 Good Reason. During the Employment Period, Executive may terminate his or her employment for Good Reason in accordance with the substantive and procedural provisions of this Section 4.4.

(a) Good Reason Definition. For purposes of this Section 4.4, "Good Reason" means the occurrence of any one or more of the following actions or omissions during the Employment Period:

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(1) any failure to pay Executive's Base Salary in violation of Section 3.2(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 3.2(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 3.1(a)(i);

(4) any material reduction in aggregate compensation and benefits as provided in Article III;

(5) requiring Executive to be based at any office or location other than the location specified in Section 3.1(a);

(6) any other material breach of this Agreement by any of the Companies;

(7) any Termination of Employment by the Companies 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 Companies explicitly to assume and agree to be bound by this Agreement.

(b) Determination of Good Reason. Any reasonable determination by Executive that any of the events specified in Section 4.4(a) 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.

(c) 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 if Executive's Termination of Employment occurs more than 12 months after Executive first obtains actual knowledge of such act or omission.

Article V.

Company's Obligations Upon Certain Terminations of Employment

5.1 Termination During the Employment Period. If, during the Employment Period the Company terminates Executive's employment other than for Cause or Disability, or Executive terminates employment for Good Reason, the sole obligations of the Companies to Executive under this Agreement shall be as follows:

(a) Separation Payments. The Companies shall pay or provide Executive, in addition to all vested rights arising from Executive's employment as specified in Article III, the following benefits, at the times specified below:

(i) Accrued Obligations. The Current Obligations shall be paid within 30 days of the Termination Date. All other Accrued Obligations will be paid at the times and in accordance with (x) the terms and conditions specified in Section 5.1(a)(iv), if applicable, and (y) in the case of amounts not described in such Section 5.1(a)(iv), the terms and conditions of the Plan under which such obligations have accrued.

(ii) Prorated Bonus for Year of Termination. Within 45 days after the Termination Date, Executive's Pro-rata Annual Bonus reduced (but not below zero) by the amount of any amount previously paid to Executive with respect to such Annual Bonus for the fiscal year in which the Termination Date occurs;

(iii) Prorated LTIP Bonus. Within 45 days after the Termination Date, Executive's Pro-rata LTIP Bonus reduced (but not below zero) by the amount of any LTIP Bonus previously paid to Executive with respect to the LTIP Performance Periods not completed as of the Termination Date;

(iv) Unvested Plan Benefits, Deferred Pensions and Pension Enhancements. All amounts previously deferred by, or accrued to the benefit of, Executive under any Non-Qualified Plans, whether vested or unvested as of the Termination Date, together with any accrued earnings thereon, to the extent that such amounts and earnings have not been previously paid by the Companies (whether pursuant to Section 3.4 or otherwise), shall be paid to the Executive in accordance with the distribution provisions of the applicable Plan and any elections as to the form and time of distributions made by Executive in accordance with the terms of such Plan (or, if no such elections shall be effective, pursuant to the default distribution provisions of the applicable Plan). In addition, the Executive shall be entitled to receive (at the same time and in the same form as such amount would have been payable if it were part of the benefit accrued under the terms of the applicable Non-Qualified Plan or, in the case of any additional benefit related to a Qualified Plan, the Non-Qualified Plan which primarily supplements the benefit payable under such Non-Qualified Plan):

(1) The benefit the Executive would have accrued under such defined benefit Plan (whether a Qualified Plan or a Non-Qualified Plan) if Executive had:

(x) become fully vested in all such previously-unvested benefits,

(y) for purposes of determining the amount of such benefits, entitlement to early retirement benefits and all other purposes (but not interest credits under any cash balance formula) accrued a number of years of service that is three years greater than the number of years of service actually accrued by Executive, and attained the age that is three years greater than Executive's actual age as of the Termination Date, and

(z) for purposes of determining final average pay under any final average pay formula or annual pay credits (but not interest credits) under any cash balance plan formula, received the lump-sum severance benefits specified in Section 5.1 (a)(v) below as covered compensation in equal monthly installments continuously over a period of 36 months commencing on the Termination Date (or if earlier, the date on which Executive ceased to accrue benefits under any such defined benefit plan).

To the extent that Executive has elected or would otherwise receive a lump sum payment in respect of any benefit under any Non-Qualified Plan or Qualified Plan that is a defined benefit Plan, Executive shall also be paid, within 45 days of the Termination Date (or, if Executive is a key employee for purposes of Section 409A of the Code, on the first business day after the six month anniversary of the Termination Date), the amount, if any, by which the Lump Sum Values of the benefits payable under each such Qualified Plan or Non-Qualified Plan (as enhanced as provided above) exceeds the sum of (x) the amount that is actually payable as a lump sum payment under such defined benefit Plan and (y) the aggregate amounts previously paid (whether pursuant to Section 3.4 or otherwise) under such defined benefit Plan.

(v) Multiple of Salary and Bonus. Within 30 days (or, if necessary, to avoid the imposition on Executive of any additional tax under Section 409A of the Code, six months and one-day) after the Termination Date, an amount equal to three (3.0) times the sum of Executive's (x) Base Salary and (y) the Target Annual 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 determining the amount payable under this clause (v); and

(vi) Stock Incentive Awards. On the Termination Date, 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 and (ii) become fully vested in all shares of restricted stock, performance share, restricted stock units, deferred stock units and similar awards, regardless of whether such awards would otherwise vest based upon the passage of time and the continued performance of services, or upon the achievement of specified performance criteria.

(vii) Life Insurance Opt Out Income. If Executive has waived all life insurance benefits in excess of $50,000 in coverage, Executive shall receive a lump sum amount, within 30 days of the Termination Date, determined using a discount rate equal to that then prevailing for immediate annuities under the rules of the Pension Benefit Guaranty Corporation, equal to the present value of 36 monthly opt-out income payments (based on the monthly amount of such opt-out income payments payable immediately prior to the Effective Date).

(b) Continuation of Welfare Benefits. Until the third anniversary of the Termination Date or such later date as any Plan may specify (or such shorter period necessary for such benefits not to be treated as deferred compensation under Section 409A of the Code and any guidance thereunder issued by the IRS), the Companies shall continue to provide to Executive and Executive's family Welfare Benefits which are at least as favorable as the most favorable plans applicable to Peer Executives who are actively employed after the Termination Date and their families, except and unless Executive has exercised the option to waive all life insurance benefits over $50,000, in which case Executive will continue to have $50,000 in life insurance coverage. The cost of such Welfare Benefits to Executive shall not exceed the cost of such Welfare Benefits to actively employed Peer Executives as applicable from time to time. Executive's rights to elect 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 shall run concurrently with the benefits provided under this Section 5.1(b). Notwithstanding anything herein to the contrary, continuation of any such Welfare Benefits shall cease if and when Executive is eligible to receive any similar Welfare Benefit- provided by the Executive's subsequent employer (if any).

(c) Outplacement. The Companies 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. 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 7.1(a) (concerning reimbursement of certain costs and expenses). Upon receipt from Executive of (i) a written request for an advancement of expenses that 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, PFG shall advance such expenses to Executive or pay such expenses for Executive, all in advance of the final disposition of any such matter.

5.2 Waiver and Release. Notwithstanding anything herein to the contrary, none of the Companies shall have any obligation to Executive under Section 5.1 or Article VI unless and until Executive executes a release and waiver in favor of PFG and the Companies, in substantially the same form as attached hereto as Exhibit A.

5.3 Termination by the Company for Cause. If the Companies terminate Executive's employment for Cause during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V shall be to pay Executive, pursuant to their then effective Plans, a lump-sum cash

amount equal to the Current Obligations, determined as of the Termination Date ,and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans. Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.4 Termination by Executive Other Than for Good Reason. If Executive elects to retire or otherwise terminate employment during the Employment Period other than for Good Reason, Disability or death, the sole obligations of the Companies to Executive under Articles III and V shall be to pay Executive, pursuant to their then effective Plans, a lump-sum cash amount equal to the Current Obligations, determined as of the Termination Date, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans. Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.5 Termination by the Company for Disability. If the Companies terminate Executive's employment by reason of Executive's Disability during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V shall be as follows:

(a) to pay Executive, pursuant to the Company's then effective Plans, a lump-sum cash amount equal to the Current Obligations determined as of the Termination Date, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans, 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 any Peer Executive.

Any LTIP Bonus shall be governed according to the terms of the LTIP.

5.6 409A Payment Provisions. Notwithstanding anything else in this Agreement to the contrary, no amount payable under this Agreement shall be paid earlier than six months and one day following Executive's Date of Termination if such delay is necessary to avoid the imposition on Executive of an additional tax under Section 409A of the Code, and no continuing benefit shall be allowed to be provided for any period beyond the period for which such benefit can be provided without subjecting Executive to any additional tax under such Section 409A of the Code. To the extent that a benefit is not allowed to be provided to Executive (as opposed to being deferred) due to the immediately preceding sentence, the Company shall pay Executive the economic equivalent of the benefit (including a gross-up in respect of any benefit which would have been provided to Executive on a tax-free basis) that can not be provided, in a single cash payment, as soon as practicable following the earliest date at which such cash payment can be made without subjecting Executive to an additional tax under Section 409A of the Code. Whether and the extent to which any interest or other compensation shall be payable with respect to a delay in payment due to Section 409A shall be determined in accordance with the terms of the applicable program under which such payment is to be made, or if the payment is not made under such a program or such a program is silent on the question of interest, interest shall be payable based on the then current short-term applicable federal rate (as determined under Section 1274(d) of the Code).

5.7 If upon Death. If Executive's employment is terminated by reason of Executive's death during the Employment Period, the sole obligations of the Companies to Executive under Articles III and V 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 the Current Obligations, determined as of the date of Executive's death, and all other Accrued Obligations in the form(s) and at the time(s) determined in accordance with the terms of the applicable Plans; 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.

Any LTIP Bonus shall be governed according to the terms of the LTIP.

Article VI.

Certain Additional Payments by the Company

6.1 Gross-Up Payment. If, at any time or from time to time, it shall be determined by the independent financial accounting firm selected by PFG prior to the Effective Date (the "Accountants"), that any payment or other benefit provided to Executive pursuant to Article III or Article V of this Agreement or otherwise (such payments or benefits hereafter called "Parachute Payments") 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, in addition to any other amounts due the Executive, the Companies shall pay or cause to be paid to Executive a tax gross-up payment ("Gross-Up Payment") with respect to all such Excise Taxes and any Taxes payable on or in respect of 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 Taxes imposed, whether by federal, state, local, foreign or other law that constitute Excise Taxes), multiplied by

(b) A fraction (the "Gross-Up Multiple"), the numerator of which is one (1.0), and the denominator of which is one (1.0) minus the sum, expressed as a decimal fraction, of the effective marginal rates of any Taxes (including any Excise Taxes) imposed on or in respect of the Gross-Up Payment. 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 in any jurisdiction in which Executive is subject to taxation.

The Gross-Up Payment is intended to compensate Executive for all such Excise Taxes and any 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 all events by the time Executive is required to make payment to the IRS of such Excise Taxes.

6.2 Limitation on Gross-Up Payments.

(a) To the extent possible, any payments or other benefits to Executive pursuant to Article III and Article V of this Agreement shall be allocated as consideration for Executive's entry into the covenants of Article IX.

(b) Notwithstanding any other provision of this Article VI, if the aggregate amount of the Parachute Payments that, but for this Section 6.2, would be payable to Executive, does not exceed 110% of Safe Harbor Amount (as defined below), then no Gross-Up Payment shall be made to Executive and the aggregate amount of Parachute Payments payable to Executive shall be reduced (but not below the Safe Harbor Amount) to the largest amount which would both (i) not cause any Excise Tax to be payable by Executive and (ii) not cause any 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 in any jurisdiction in which Executive is subject to taxation.

(c) For purposes of this Agreement, "Safe Harbor Amount" means the product of (i) 2.99 times (ii) Executive's "base amount" as defined in Section 280G(b)(3) of the Code (or any successor provision thereto) and any regulations promulgated thereunder.

6.3 Additional Gross-up Amounts. If, for any reason (including pursuant to published rulings of the IRS or a final judgment of a court of competent jurisdiction), the Accountants determine that the amount of Excise Taxes payable by Executive is greater than the amount initially determined pursuant to Section 6.1, then the Companies shall, subject to Sections 6.2 and 6.4, 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 6.1 or 6.4, multiplied by

(b) the Gross-Up Multiple.

6.4 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 Parachute Payments in an amount in excess of the amount of such Excise Taxes determined in accordance with Section 6.1. 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 Accountants ("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 Companies, and

(iii) direct Executive pursuant to Section 6.4(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 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), any of the Companies 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 any Company notifies Executive in writing that such Company desires Executive to contest an IRS Claim or to pursue a Refund Claim, Executive shall:

(i) give such 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 such Company reasonably requests in writing from time to time, including accepting legal representation with respect thereto by an attorney selected by such Company, subject to the approval of Executive (which approval shall not be unreasonably withheld or delayed),

(iii) cooperate with such Company in good faith to contest such IRS Claim or pursue such Refund Claim, as applicable,

(iv) permit such 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 such Company may from time to time determine in its discretion.

Such 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) such 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) Such 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 any Company directs Executive to pay an IRS Claim and pursue a Refund Claim, such 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 other Taxes, 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 such 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 other Taxes, including related interest and penalties, imposed as a result of such payment of costs and expenses.

6.5 Refunds. If, after the receipt by Executive or the IRS of any payment or advance of Excise Taxes or other Taxes by any Company pursuant to this Article, Executive receives any refund with respect to such Excise Taxes, Executive shall (subject to such Company's complying with any applicable requirements of Section 6.4) promptly pay such 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 a Company pursuant to Section 6.4 or receipt by the IRS of an amount paid by a Company on behalf of the Executive pursuant to Section 6.4, a determination is made that Executive shall not be entitled to any refund with respect to such claim and such Company does not notify Executive in writing of its intent to contest such determination within 30 days after such 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 6.4(d).

Article VII.

Expenses, Interest and Dispute Resolution

7.1 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, or obtain benefits under this Agreement, the Companies shall reimburse Executive on a current basis (in accordance with Section 7.1(b)) for such fees and expenses and provide a gross-up payment related to any Taxes arising in respect of such reimbursement.

(b) Reimbursement of legal fees and expenses and gross-up payments related to such legal fees 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 any Company hereunder, and the Companies establish that Executive had no reasonable basis for Executive's claim hereunder, or for Executive's response to any 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.

7.2 Interest. If any amount due to Executive under this Agreement is not paid 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.

7.3 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. The Company involved in the dispute, controversy or claim, or PFG 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 by the Companies, except that Executive's expenses shall be handled according to Section 7.1. 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 7.3 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 7.3 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 arbitrators. 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 VIII.

No Set-off or Mitigation

8.1 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.

8.2 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 IX.

Confidentiality and Noncompetition

9.1 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 Companies that was disclosed without a breach of any confidentiality obligation; or (iii) information approved for release by written authorization of any 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 (i) as required by the duties of his employment with any of the Companies or any of their and/or its Affiliates, (ii) in connection with enforcing the Executive's rights under this Agreement or (iii) if compelled by a court or governmental agency, he will not, without the consent of PFG, 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; provided that, in the circumstances referenced in clause (iii), no exception shall apply unless prior written notice of such disclosure is given to PFG. These obligations shall commence on the Agreement Date and shall continue during and after the termination of Executive's employment (whether or not after the Effective Date).

9.2 Non-Competition. During the period beginning on the Agreement Date and ending at the date specified below, 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 9.2 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.

Executive's obligations to the Companies under this Section 9.2 shall expire on the first to occur of any of the following three events:

(x) the expiration of this Agreement prior to the occurrence of an Effective Date,

(y) the first anniversary of Executive's Termination Date if (I) Executive's employment by the Company other than for Disability or Cause or (II) Executive's employment is terminated by Executive for Good Reason, and Executive receives benefits (other than the payment of the Accrued Obligations) under Article V, or

(z) Executive's Termination Date occurs other than as a result of a termination described in clause (y) of this Section 9.2.

9.3 Non-Solicitation. During the period beginning on the Agreement Date and ending on the first anniversary of any Termination Date, whether or not after an Effective Date or the expiration of the term of this Agreement, Executive shall not, directly or indirectly:

(a) other than in connection with the good-faith performance of his duties as an officer of any Company, encourage any employee or agent of any Company to terminate his or her relationship with any 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 any Company (other than by any 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 any Company; or

(d) interfere with the relationship of any Company with, or endeavor to entice away from any Company, any Person who or which at any time during the period commencing one year prior to the date of determination (or, if earlier, the Executive's Termination Date) was or is a material customer or material supplier of, or maintained a material business relationship with, such Company.

To the extent Executive is bound by any similar restrictions on solicitation under any other agreement entered into in connection with any compensatory grant or award, or under the terms of any compensatory plan, Executive and the Companies hereby agree that such other restrictions shall be deemed amended or otherwise modified to be coextensive with the time period during which the restrictions of this Section 9.3 are applicable. The immediately preceding sentence shall not apply to any such restrictions applicable under the terms of any individual employment agreement or individually negotiated separation or other termination agreement.

9.4 Intellectual Property. During the term of this Agreement, Executive shall disclose immediately to the Companies 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 Companies, 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 Companies or any customer or supplier to the Companies or any of the products or services being developed, manufactured, sold or otherwise provided by the Companies or that may be used in relation therewith; or (ii) result from tasks assigned to Executive by the Companies; or (iii) result from the use of the premises or personal property (whether tangible or intangible) owned, leased or contracted for by the Companies. Executive agrees that any Work Product shall be the property of the Companies 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 Companies 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) Each of the Companies hereby notifies Executive that the preceding paragraph does not apply to any inventions for which no equipment, supplies, facility, or trade secret information of any of the Companies was used and which was developed entirely on the Executive's own time, unless: (i) the invention relates (a) to the business of any of the Companies, or (b) to actual or demonstrably anticipated research or development of any of the Companies, or (ii) the invention results from any work performed by the Executive for any of the Companies.

(b) Executive agrees that upon disclosure of Work Product to the Companies, Executive will, during his employment and at any time thereafter, at the request and cost of the Companies, execute all such documents and perform all such acts any of the Companies or any of their duly authorized agents may reasonably require: (i) to apply for, obtain and vest in the name of one or more of the Companies alone (unless the

Companies otherwise direct) 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 all of the Companies are 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 each of the Companies and each of their 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.

9.5 Reasonableness of Restrictive Covenants.

(a) Executive acknowledges that the covenants contained in Sections 9.1, 9.2, 9.3 and 9.4 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 legitimate interests of each of the Companies in their respective Confidential Information and their relationships with their 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) Each of 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 9.1, 9.2, 9.3 and 9.4 will not deprive him of the ability to earn a livelihood or to support his dependents.

9.6 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 9.1, 9.2, 9.3 and 9.4 the parties agree that it would be impossible to measure solely in money the damages which 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 if he breaches any of the provisions of such Sections, each 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 breach, or threatened breach, of such provisions, and Executive hereby waives any right to assert any claim or defense that such 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 IX 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) Except as otherwise expressly provided in this Article IX, the provisions of this Article IX shall survive any Termination of Employment without regard to (i) the reasons for such termination or (ii) the expiration of the term of this Agreement.

Article X.

Non-Exclusivity of Rights

10.1 Waiver of Certain Other Rights. To the extent that lump sum cash severance payments are made to Executive pursuant to Article V, Executive hereby waives the right to receive severance payments or severance benefits under any other Plan or agreement with any of the Companies; provided, however, that if Executive's employment was terminated prior to the Effective Date but is deemed to terminate after the Effective Date pursuant to Section 1.3, Executive shall be entitled to retain any severance payments or benefits paid in connection with such termination, but such amounts shall apply as an offset against the benefits payable under Article V hereof.

10.2 Other Rights. Except as expressly provided in Section 10.1 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 any of the Companies. 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.

10.3 No Right to Continued Employment. Nothing in this Agreement shall guarantee the right of Executive to continue in employment, and each of the Companies retains the right to terminate the Executive's employment at any time for any reason or for no reason.

Article XI.

Miscellaneous

11.1 No Assignability. This Agreement is personal to Executive and without the prior written consent of each of the Companies 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.

11.2 Successors. This Agreement shall inure to the benefit of and be binding upon each of the Companies and its respective successors and assigns. Each of the Companies 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 such Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that such Company would have been required to perform it if no such succession had taken place. Any successor to the business or assets of any of the Companies which assumes or agrees to perform this Agreement by operation of law, contract, or otherwise shall be jointly and severally liable under this Agreement with such Company as if such successor were the Company.

11.3 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 under the Companies' group life insurance plan (each, a "Beneficiary"). If no such beneficiary is so designated, the Executive's estate shall be his or her Beneficiary. If Executive participates in more than one group life insurance plan, Executive's Beneficiary shall be the person(s) named as his or her beneficiary under whichever such plan provides Executive the largest amount of insurance coverage.

11.4 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.

11.5 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.

11.6 Amendments. Except as expressly provided in the second sentence hereof, this Agreement may not be amended or modified except by written instrument executed by or on behalf of each of the Companies and Executive. Notwithstanding the foregoing, the Board or any duly authorized committee thereof may amend this Agreement at any time or from time to time, in any way (other than an amendment that has the effect of terminating this Agreement other than in the manner specified in Article I) without the consent of Executive, but no such amendment shall take effect until the first anniversary after it is approved or adopted by the Board or such committee and shall be of no force and effect (unless the Executive otherwise elects in writing) if either (i) the Effective Date or (ii) a Pre-Change of Control Event occurs prior to the time such amendment would otherwise have become effective; provided, however, that if the Board determines in good faith that a Pre-Change of Control Event will not result in a Change of Control, such an amendment shall become effective as of the later of (x) the date the Board makes that determination or (ii) the first anniversary of the date such amendment was adopted.

11.7 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 Companies.

If to any Company:

Principal Financial Group, Inc.
711 High Street
Des Moines, Iowa 50392
Attention: Karen E. Shaff
Facsimile No.: (515) 235-9852

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.

11.8 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.

11.9 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.

11.10 Captions. The captions of this Agreement are not a part of the provisions hereof and shall have no force or effect.

11.11 Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine.

11.12 Tax Withholding. The Companies 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.

11.13 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.

11.14 Joint and Several Liability. The obligations of the Companies (and of any successor to any of the Companies) to Executive under this Agreement shall be joint and several.

11.15 Entire Agreement. This Agreement contains the entire understanding of each of the Companies and Executive with respect to its subject matter, and supercedes any prior agreement whether written or oral, dealing with the subject matter hereof including, without limitation, the Prior Agreement.

IN WITNESS WHEREOF, Executive, Principal Financial Group, Inc., 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

____

NAME

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ J.Barry Griswell
Title: Chairman, President and Chief Executive Officer

PRINCIPAL FINANCIAL SERVICES, INC.

By: /s/ J.Barry Griswell
Title: Chairman, President and Chief Executive Officer

PRINCIPAL LIFE INSURANCE COMPANY

By: /s/ J.Barry Griswell
Title: Chairman, President and Chief Executive Officer

EXHIBIT A
WAIVER AND RELEASE

This agreement, release and waiver (the "Release"), made as of the day of , , is made by and among Principal Financial Group, Inc., a Delaware corporation, Principal Financial Services, Inc., an Iowa corporation, Principal Life Insurance Company, an Iowa corporation (collectively "Company"), and ("Executive").

WHEREAS, the Company and Executive have entered into a Change of Control Employment Agreement dated ("Agreement");

NOW THEREFORE, in consideration for receiving benefits and severance pursuant to the Agreement, and in consideration of the representations, covenants and mutual promises set forth in this Release, the parties agree as follows:

1. Release. Except with respect to the Company' obligations under the Agreement, the Executive, on behalf of himself and Executive's heirs, executors, assigns, representatives, agents, legal representatives, and personal representatives, hereby releases, acquits and forever discharges the Company, its agents, subsidiaries, affiliates, respective officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the day prior to execution of this Release, 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 the Company; the Executive's termination of employment with the Company; claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Company, vacation pay, fringe benefits, expense reimbursements, sabbatical benefits, severance benefits, or any other form of compensation or equity; claims pursuant to any federal, state, local law, statute, ordinance or 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; fraud; defamation; harassment; emotional distress; or breach of the implied covenant of good faith and fair dealing. This Release does not apply to any benefits to which the Executive may be entitled under a Company sponsored tax qualified retirement or savings plan.

2. Release by Company. Except with respect to the Executive's obligations under the Agreement, including but not limited to the covenants entered into pursuant to the eligibility requirements of the Agreement, the Company, and its agents, subsidiaries, attorneys, representatives, successors, and assigns, hereby release, acquit and forever discharge the Executive, and Executive's heirs, executors, assigns, representatives, agents, legal representatives, and personal representatives, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages,

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indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to the day prior to execution of this Release, including but not limited to: any and all claims and demands directly or indirectly arising out of or in any way connected with the Executive's employment with the Company.

3. No Inducement. Executive agrees that no promise or inducement to enter into this Release has been offered or made except as set forth in this Release and the Agreement, that the Executive is entering into this Release without any threat or coercion and without reliance or any statement or representation made on behalf of the Company or by any person employed by or representing the Company, except for the written provisions and promises contained in this Release and the Agreement.

4. Damages. The parties agree that damages incurred as a result of a breach of this Release will be difficult to measure. It is, therefore, further agreed that, in addition to any other remedies, equitable relief will be available in the case of a breach of this Release. It is also agreed that, in the event of a breach of this Release by Executive, the Company may withhold, retain, or require reimbursement of all or any portion of the benefits and payments under the Agreement.

5. Advice of Counsel; Time to Consider; Revocation. Executive acknowledges the following:

(a) Executive has read this Release, and understands its legal and binding effect. Executive is acting voluntarily and of Executive's own free will in executing this Release.

(b) Executive has been advised to seek and has had the opportunity to seek legal counsel in connection with this Release.

(c) Executive was given the opportunity to consider the terms of this Release for at least 21 days before signing it. To the extent that Executive executes this Release prior to the expiration of such 21-day period, Executive has done so knowingly and voluntarily, and has expressly waived the right to consider this Release for the full 21-day period.

Executive understands that, if Executive signs the Release, Executive may revoke it within seven days after signing it, and that Executive's right to revoke this Release during such period may not be waived or otherwise curtailed. Executive understands that this Release will not be effective until after the seven-day period has expired.

6. Reaffirmation of Covenants. Executive agrees, understands and acknowledges that, to the extent expressly provided in Article IX of the Agreement, Executive is bound by certain covenants in favor of the Company with regard to confidential information, non-solicitation and intellectual property, which continue in full force and effect as specified in the Agreement following Executive's termination of employment with the Company and the execution of this Release. Executive agrees, understands and acknowledges that

the non-competition covenant contained in Section 9.2 of the Agreement shall continue in full force and effect the first anniversary of the date Executive's employment terminates.

7. Severability. If all or any part of this Release is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any other portion of this Release. Any section or a part of a section declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of the section to the fullest extent possible while remaining lawful and valid.

8. Amendment. This Release shall not be altered, amended, or modified except by written instrument executed by the Companies and the Executive. A waiver of any portion of this Release shall not be deemed a waiver of any other portion of this Release.

9. Counterparts. This Release may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

10. Headings. The headings of this Release are not part of the provisions hereof and shall not have any force or effect.

11. Applicable Law. The provisions of this Release shall be interpreted and construed in accordance with the laws of the State of Iowa without regard to its choice of law principles.

IN WITNESS WHEREOF, the parties have executed this Release as of the dates specified below.

EXECUTIVE

____

DATE: ______________

PRINCIPAL FINANICIAL GROUP, INC.

By: ______________________________
Title: ______________________________
DATE: ______________________________

PRINCIPAL FINANCIAL SERVICES, INC.

By: ______________________________

Title: ______________________________

Date: ______________

PRINCIPAL LIFE INSURANCE COMPANY

By: ____
Title: ______________________________________
DATE: _______________

Exhibit 12

Principal Financial Group, Inc.

Computation of Earnings to Fixed Charges Ratio

		For the three months ended March 31		For the years ended December 31,				
		2006	2005	2005	2004	2003	2002	2001
		(in millions)						
1.	Income from continuing operations before income taxes	**$ 373.6**	$ 279.6	$ 1,124.3	$ 879.1	$ 820.3	$ 371.5	$ 249.9
2.	Interest expense	**20.5**	19.2	81.1	96.9	117.5	99.7	97.2
3.	Interest factor of rental expense	**1.7**	1.2	7.0	4.6	4.8	8.0	9.4
4.	Undistributed income from equity investees	**(14.2)**	(5.5)	(34.1)	(19.4)	(18.3)	4.3	(17.4)
5.	Earnings before interest credited on investment products	**381.6**	294.5	1,178.3	961.2	924.3	483.5	339.1
6.	Interest credited on investment products	**213.7**	201.0	832.2	763.7	735.7	743.4	773.1
7.	Earnings	**$ 595.3**	$ 495.5	$ 2,010.5	$ 1,724.9	$ 1,660.0	$ 1,226.9	$ 1,112.2
8.	Interest expense	**$ 20.5**	$ 19.2	$ 81.1	$ 96.9	$ 117.5	$ 99.7	$ 97.2
9.	Interest factor of rental expense	**1.7**	1.2	7.0	4.6	4.8	8.0	9.4
10.	Preferred stock dividends by registrant	**8.2**	—	17.7	—	—	—	—
11.	Preferred stock dividend requirements of majority-owned subsidiaries (non-intercompany)	**—**	—	—	—	1.2	0.4	—
12.	Fixed charges before interest credited on investment products	**30.4**	20.4	105.8	101.5	123.5	108.1	106.6
13.	Interest credited on investment products	**213.7**	201.0	832.2	763.7	735.7	743.4	773.1
14.	Fixed charges	**$ 244.1**	$ 221.4	$ 938.0	$ 865.2	$ 859.2	$ 851.5	$ 879.7
15.	Ratio of earnings to fixed charges before interest credited on investment products (Line item 5/Line item 12)	**12.6**	14.4	11.1	9.5	7.5	4.5	3.2
16.	Ratio of earnings to fixed charges (Line item 7/Line item 14)	**2.4**	2.2	2.1	2.0	1.9	1.4	1.3

Exhibit 31.1

CERTIFICATIONS

I, J. Barry Griswell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Principal Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2006

/s/ J. Barry Griswell

J. Barry Griswell
Chairman, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Michael H. Gersie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Principal Financial Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2006

/s/ Michael H. Gersie

Michael H. Gersie
Executive Vice President and Chief
Financial Officer

Exhibit 32.1

Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

I, J. Barry Griswell, Chairman, President and Chief Executive Officer of Principal Financial Group, Inc., certify that (i) the Form 10-Q for the quarter ended March 31, 2006 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q for the quarter ended March 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of Principal Financial Group, Inc.

/s/ J. Barry Griswell

J. Barry Griswell
Chairman, President and Chief Executive Officer
Date: May 3, 2006

Exhibit 32.2

**Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

I, Michael H. Gersie, Executive Vice President and Chief Financial Officer of Principal Financial Group, Inc., certify that (i) the Form 10-Q for the quarter ended March 31, 2006 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q for the quarter ended March 31, 2006 fairly presents, in all material respects, the financial condition and results of operations of Principal Financial Group, Inc.

/s/ Michael H. Gersie

Michael H. Gersie
Executive Vice President and Chief Financial Officer
Date: May 3, 2006