



**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**Pre-Effective Amendment No. 2**

**to**

**Form S-3**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Principal Life Insurance Company**

*(As depositor of the trusts described herein and  
as issuer of the funding agreements described herein)  
(Exact name of registrant as specified in its charter)*

**Iowa**

*(State or other jurisdiction of incorporation or organization)*

**42-0127290**

*(I.R.S. Employer Identification Number)*

**711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**

*(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)*

**Principal Financial Group, Inc.**

*(As issuer of the guarantees described herein)  
(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**42-1520346**

*(I.R.S. Employer Identification Number)*

**711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**

*(Address, including zip code, and telephone number, including area  
code, of registrant's principal executive offices)*

*Please address a copy of all communications to:*

**Karen E. Shaff**

**Principal Life Insurance Company**

**711 High Street  
Des Moines, Iowa 50392-0001  
(515) 247-5111**

*(Name, address, including zip code, and telephone number, including area code, of agent for service of each registrant)*

*Copies to:*

**Perry J. Shwachman  
Brian J. Fahrney  
Anthony J. Ribaldo  
Sidley Austin Brown & Wood LLP  
10 South Dearborn Street  
Chicago, Illinois 60603  
(312) 853-7000**

**Jeffrey J. Delaney  
Pillsbury Winthrop LLP  
1540 Broadway  
New York, New York 10036  
(212) 858-1000**

**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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

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

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

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

---

---

---

## TABLE OF CONTENTS

[ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS SUMMARY](#)

[DESCRIPTION OF THE NOTES](#)

[SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES](#)

[DESCRIPTION OF THE FUNDING AGREEMENTS](#)

[MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS](#)

[PLAN OF DISTRIBUTION](#)

[ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS SUMMARY](#)

[DESCRIPTION OF THE NOTES](#)

[DESCRIPTION OF THE FUNDING AGREEMENTS](#)

[MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS](#)

[PLAN OF DISTRIBUTION](#)

[REPAYMENT ELECTION FORM](#)

[ABOUT THIS PROSPECTUS](#)

[RISK FACTORS](#)

[FORWARD LOOKING INFORMATION](#)

[WHERE YOU CAN FIND MORE INFORMATION](#)

[INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE](#)

[USE OF PROCEEDS](#)

[RATIO OF EARNINGS TO FIXED CHARGES](#)

[PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.](#)

[DESCRIPTION OF THE TRUSTS](#)

[DESCRIPTION OF THE NOTES](#)

[DESCRIPTION OF THE FUNDING AGREEMENTS](#)

[DESCRIPTION OF THE GUARANTEES](#)

[DESCRIPTION OF THE EXPENSE AND INDEMNITY AGREEMENTS](#)

[ERISA CONSIDERATIONS](#)

[PLAN OF DISTRIBUTION](#)

[LEGAL MATTERS](#)

[EXPERTS](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[Form of Distribution Agreement](#)

[Form of Standard Indenture Terms](#)

[Form of Standard Trust Terms](#)

[Form of Omnibus Instrument](#)

[Form of Closing Instrument](#)

[Form of Custodial Agreement](#)

[Opinion of Nora M. Everett, Internal Counsel](#)

[Opinion of Sidley Austin Brown & Wood LLP](#)

[Opinion of Sidley Austin Brown & Wood LLP](#)

[Statement Re: Computation of Ratio of Earnings](#)

[Consent of Ernst & Young LLP](#)

[Consent of Sidley Austin Brown & Wood LLP](#)

---

## EXPLANATORY NOTE

This Registration Statement contains:

- two prospectus supplements relating to notes (one for an offering of secured medium-term notes which will be offered primarily to institutional investors and the other for an offering of Principal® Life CoreNotes® which will be offered primarily to retail investors) that one or more newly established separate and distinct trusts may issue and sell to the public, from time to time, with payment of principal and interest on the applicable series of notes to be secured by a funding agreement sold to, and deposited into, the applicable trust, by Principal Life Insurance Company, the payment obligations under which will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc.; and
- a base prospectus relating to notes that one or more newly established separate and distinct trusts may issue and sell to the public, from time to time, with payment of principal and interest on the applicable series of notes to be secured by a funding agreement sold to, and deposited into, the applicable trust, by Principal Life Insurance Company, the payment obligations under which will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc.

Each offering of notes made under this Registration Statement will be made pursuant to:

- one of the prospectus supplements included in this Registration Statement, with the specifications of the notes offered thereby set forth in a pricing supplement; or
- a newly filed prospectus supplement to the base prospectus, with the specifications of the notes offered thereby set forth in such newly filed prospectus supplement or a pricing supplement.

---

“Principal®” is a registered service mark of Principal Financial Services, Inc. and is used under license.

“CoreNotes®” is a registered service mark of Merrill Lynch & Co., Inc.

---

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or would require registration or qualification under the securities laws of the jurisdiction.

**SUBJECT TO COMPLETION, DATED MARCH 3, 2004**

**PROSPECTUS SUPPLEMENT**

(To prospectus dated March , 2004)

**\$4,000,000,000**



**Principal Life Insurance Company**

**Secured Medium-Term Notes  
Due Between Nine Months and Thirty Years From the Date of Issue  
Issued Through  
Principal Life Income Fundings Trusts**

**Principal Life:** We are Principal Life Insurance Company, an Iowa insurance company, and the depositor of the funding agreements described below. This prospectus supplement relates to the offering, from time to time, through newly established separate and distinct trusts described below, of one or more series of secured medium-term notes, which we refer to in this prospectus supplement as “notes,” in an aggregate principal amount of up to \$4,000,000,000 or the equivalent amount in one or more foreign or composite currencies, less any principal amount of notes previously issued under this program, our Principal® Life CoreNotes® program issued primarily to retail investors, or otherwise under the accompanying prospectus.

The applicable trust will use the net proceeds from the offering of its series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust, by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent (“PFG”).

Each trust exists for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, and engaging in other activities necessary or incidental thereto.

**The notes:** The specific terms and conditions of each series of notes will be as set forth in a separate pricing supplement. The notes of each series will:

- be issued by a separate and distinct trust;
- rank as secured indebtedness of the trust secured primarily by a funding agreement issued by us;
- unless otherwise specified in the applicable pricing supplement, not be listed on any securities exchange;
- unless otherwise specified in the applicable pricing supplement, have a minimum denomination of \$1,000 and integral multiples in excess thereof or other specified denominations for foreign currencies;
- be in book-entry or definitive form;
- have a stated maturity of between 9 months and 30 years from the date of issue;
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of the notes;
- represent non-recourse obligations of the trust and will be paid only from the assets of that trust;
- be the trust’s obligations only and will not be obligations of, or guaranteed by, us, PFG or any of our or its affiliates;
- provide for payment in U.S. dollars or one or more foreign currencies;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement); and
- be sold to United States and foreign institutional and other investors.

Holders of a series of notes may look only to the trust’s rights and title in the funding agreement issued to, and deposited into, the applicable trust by us, the related guarantee issued by PFG and any proceeds of that funding agreement and guarantee held in the trust and not to any other assets or collateral held by any other trust, us or PFG.

Investing in the notes involves risks that are described in the “Risk Factors” section beginning on page 2 of the accompanying prospectus.

None of the Securities and Exchange Commission (the “SEC”), any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The trusts may sell notes to one or more of the applicable agents referred to below (collectively, the “Agents”) as principals for resale at varying or fixed offering prices or through the applicable Agents using their reasonable efforts on behalf of the trust.

---

**Merrill Lynch & Co.**

**ABN AMRO Incorporated  
Citigroup**

**Credit Suisse First Boston**

**Lehman Brothers**

**Morgan Stanley**

**UBS Investment Bank**

---

The date of this prospectus supplement is March , 2004.

“Principal®” and “Principal Financial Group and Design®” are registered service marks of Principal Financial Services, Inc. and are used under license.

“CoreNotes®” is a registered service mark of Merrill Lynch & Co., Inc.

---

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PROSPECTUS SUPPLEMENT</b>	
ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS SUMMARY	S-1
DESCRIPTION OF THE NOTES	S-3
SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES	S-12
DESCRIPTION OF THE FUNDING AGREEMENTS	S-36
MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS	S-38
PLAN OF DISTRIBUTION	S-39
<b>PROSPECTUS</b>	
ABOUT THIS PROSPECTUS	S-44
RISK FACTORS	1
FORWARD LOOKING INFORMATION	2
WHERE YOU CAN FIND MORE INFORMATION	11
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	12
USE OF PROCEEDS	12
RATIO OF EARNINGS TO FIXED CHARGES	13
PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.	13
DESCRIPTION OF THE TRUSTS	14
DESCRIPTION OF THE NOTES	16
DESCRIPTION OF THE FUNDING AGREEMENTS	20
DESCRIPTION OF THE GUARANTEES	32
DESCRIPTION OF THE EXPENSE AND INDEMNITY AGREEMENTS	37
ERISA CONSIDERATIONS	38
PLAN OF DISTRIBUTION	39
LEGAL MATTERS	41
EXPERTS	42

**ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS**

This document is a prospectus supplement and supplements a prospectus which is part of the registration statement that we and PFG have filed with the SEC. This prospectus supplement provides you with a general description of the notes being offered, through newly established separate and distinct trusts, and supplements the description of the notes contained in the accompanying prospectus. These notes may be offered from time to time, through trusts, in one or more series of notes with a total initial public offering price or purchase price of up to \$4,000,000,000 or the equivalent amount in one or more foreign or composite currencies, less any amount of notes previously issued under this program, pursuant to a separate prospectus supplement that relates to our Principal® Life CoreNotes® program issued primarily to retail investors or otherwise under the accompanying prospectus.

The specific terms and conditions of notes being offered will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the accompanying prospectus. That pricing supplement also may add, update, supplement or clarify information in this prospectus supplement and the accompanying prospectus. You should carefully review such additional, updated, supplemental or clarifying information contained in the pricing supplement. You



## Table of Contents

should read this prospectus supplement and the accompanying prospectus and the pricing supplement together with the additional information that is incorporated by reference in this prospectus supplement and the accompanying prospectus. That additional information is described under the heading “Incorporation of Certain Documents by Reference” beginning on page 12 of the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement. None of us, PFG, any trust or any Agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. None of us, PFG, any trust or any Agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of its respective date. The business, financial condition, results of operations and prospects of us and PFG may have changed since that date.

In this prospectus supplement, references to “Principal Life,” “we,” “us” and “our” are to Principal Life Insurance Company, an Iowa life insurance company, references to “PFG” are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to “trust” are to the applicable newly established separate and distinct special purpose common law trust, formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement, which actually issues the applicable series of notes. In this prospectus supplement, we refer to each series of Secured Medium-Term Notes as a “series of notes” and to Secured Medium-Term Notes in general as “notes.”

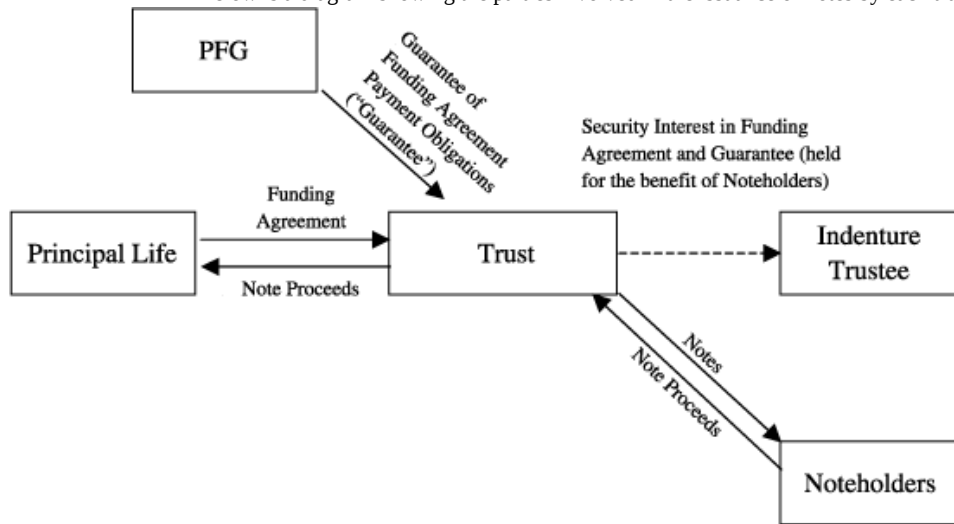
In this prospectus supplement, references to “United States dollars,” “U.S. dollars” or “\$” are to lawful currency of the United States of America, and references to “euros” are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

## SUMMARY

*This section summarizes the material legal and financial terms of the notes that are described in more detail in “Description of the Notes” beginning on page S-12. Final terms of any particular series of notes are set at the time of sale and will be contained in a pricing supplement relating to that series of notes. That pricing supplement may add to, update, supplement or clarify the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in the accompanying prospectus, this prospectus supplement and the applicable pricing supplement.*

The Trusts	Each series of notes will be issued by a newly established and separately created common law trust. Each trust will be established by GSS Holdings II, Inc., as trust beneficial owner, and U.S. Bank Trust National Association, as trustee, pursuant to a trust agreement (each, a “trust agreement”). The assets and liabilities of each trust are separate and distinct from the assets and liabilities of every other trust, us and PFG.
The Depositor	We are a registrant as the depositor and issuer of the funding agreements under the program.
The Guarantor	PFG is a registrant as the issuer of the guarantees that will fully and unconditionally guarantee our payment obligations under the funding agreements.
Purpose of Trusts	<p>The sole purpose of the trusts is to facilitate a program for the issuance, from time to time, of one or more series of notes to the public. Each trust may only issue one series of notes and such notes will be issued only on the original issue date for such notes. Each series of notes will be secured by only one funding agreement purchased from us by the applicable trust, the principal amount of which may not be increased. Our payment obligations under each funding agreement will be fully and unconditionally guaranteed by PFG. The trust will use the net proceeds received from issuing a series of notes to acquire a funding agreement for, and to be held in, the trust. The trust will hold the collateral described below pertaining to the applicable series of notes to fund its obligations under that series of notes. Notes issued by the trust will be the direct obligations of the trust and will not be the obligations of any other trust, us or PFG. Holders of notes of a particular series may only look to the funding agreement issued by us, the related guarantee issued by PFG and any proceeds of such funding agreement and guarantee held in the related trust for payment on their notes and not to the assets held in any other trust or by us or PFG.</p> <p>We and PFG are not affiliated with any trust.</p>

Below is a diagram showing the parties involved in the issuance of notes by each trust.



**We Can Issue Medium-Term Notes and Funding Agreements Directly to Investors**

We are able to issue our own medium-term notes directly to investors and do issue funding agreements directly to investors. However, by securing each trust’s notes with a funding agreement, such trust’s notes are secured by an asset that would have a higher priority in insolvency than our unsecured medium-term notes, if any, and may be entitled to receive a higher investment rating from one or more nationally recognized rating agencies than our unsecured medium-term notes. In addition, funding agreements are very difficult to transfer and have no active secondary market. By securing each trust’s notes with a funding agreement, investors may be able to avail themselves of many of the benefits of our funding agreements while benefiting from the liquidity afforded by each trust’s medium-term notes.

**Agents**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Incorporated, Citigroup Global Markets Inc., Credit Suisse First Boston LLC, Lehman Brothers Inc., Morgan Stanley & Co. Incorporated and UBS Securities LLC.

**Secured Medium-Term Notes Program**

This prospectus supplement relates to notes that one or more trusts may issue and sell to United States and foreign institutional and other investors under our secured medium-term notes program.

**Principal® Life CoreNotes® Program**

Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to retail investors by newly established trusts under the related Principal® Life CoreNotes® program. The terms of the

[Table of Contents](#)

Principal® Life CoreNotes® are identical in all material respects to the terms of the notes to be sold under this program, as described in this prospectus supplement, except that the Principal® Life CoreNotes®:

- may not be issued as amortizing notes;
- will be denominated in U.S. dollars only;
- will not provide for the payment of additional amounts relating to any required withholding under any circumstances; and
- may contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes.

Amount

The trusts may collectively issue up to a maximum aggregate principal amount of \$4,000,000,000 of notes, or the equivalent in one or more foreign or composite currencies, in connection with this prospectus supplement, less any principal amount of notes previously issued under this program, our Principal® Life CoreNotes® program or otherwise under the accompanying prospectus.

Terms of the Notes:

*Status*

- Each series of notes will be the unconditional, direct, non-recourse, secured and unsubordinated obligations of the applicable trust. Each series of notes will be secured by the collateral relating to that series of notes.

- Each series of notes may be accelerated in the payment of principal and outstanding interest if an event of default under the notes occurs. Upon the occurrence of an event of default, the indenture trustee (described below), on behalf of the holders of such notes, may only proceed against the collateral held in the related trust.

- The notes of each series are not, and will not be, obligations of, or guaranteed by, us or any other insurance company or any affiliate of ours, including PFG. The notes will not benefit from any insurance guarantee fund coverage or any similar protection.

*Payment of Principal and Interest*

- Principal and interest payments, if any, on any series of notes will be made solely from the proceeds of a funding agreement purchased with respect to such series of notes for, and to be held in, the related trust and the full and unconditional guarantee issued by PFG of our

payment obligations under the relevant funding agreement.

- Each series of notes may be interest bearing or non-interest bearing as specified in the applicable pricing supplement. Each series of notes may bear interest at either a fixed rate or a floating rate, or a combination of fixed rates and floating rates, as specified in the applicable pricing supplement.

- The principal amount of each note (other than amortizing notes) will be payable on its stated maturity date, repayment date or redemption date, as specified in the applicable pricing supplement, at the corporate trust office of the paying agent or any other place the relevant trust designates.

- Unless otherwise specified in the applicable pricing supplement, interest, if any, on each series of notes will be payable on a monthly, quarterly, semi-annual or annual basis.

- A trust may issue amortizing notes that pay an amount in respect of both interest and principal amortized over the life of the note as specified in the applicable pricing supplement.

*Interest Rate*

Each fixed rate note will bear interest from its date of original issuance at the annual rate stated in the applicable pricing supplement until the principal is paid unless otherwise specified in the applicable pricing supplement.

Each floating rate note will bear interest from the date of original issuance until the principal is paid at a rate determined by reference to an interest rate or interest rate formula, which may be adjusted by a spread and/or spread multiplier (each as more fully described under “Description of the Notes”). The applicable pricing supplement will designate one or more of the following interest rate bases along with the index maturity for that interest rate basis:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- the Federal Funds Rate;
- LIBOR;
- EURIBOR;
- the Prime Rate;
- the Treasury Rate; or

## Table of Contents

- such other interest rate basis or interest rate formula as set forth in such pricing supplement.

### *Maturities*

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature nine months or more from its date of original issuance on the last scheduled interest payment date, as specified in the applicable pricing supplement. Each series of notes will mature on or prior to 30 years from its date of original issuance.

### *Redemption and Repayment*

A trust will redeem its series of notes if we redeem the funding agreement securing such series of notes. Except as otherwise specified in the accompanying prospectus, this prospectus supplement or the applicable pricing supplement, the funding agreement securing a series of notes will not be redeemable by us and no series of notes will be repayable at the option of the holder prior to their stated maturity date. Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund.

### Denominations; Currency

Unless otherwise specified in the applicable pricing supplement, the notes will be denominated in U.S. dollars and sold in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

### Listing

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

### Form of Notes

Unless otherwise specified in the applicable pricing supplement, each series of notes will be issued in fully registered form and will be initially represented by one or more book-entry notes registered in the name of Cede & Co., the nominee of The Depository Trust Company, as depository. Each book-entry note will be held by the indenture trustee as custodian for the depository or its nominee.

### Clearing Systems

The Depository Trust Company and/or, in relation to any series of notes, any other clearing system as may be specified in the applicable pricing supplement.

### Collateral

The notes of any series will be secured by the right, title and interest of the trust in and to (1) the relevant funding agreement held in that trust, (2) the related guarantee issued by PFG to the trust fully and unconditionally guaranteeing our payment obligations under the funding agreement, (3) all proceeds of the funding agreement and the guarantee and all amounts and instruments on deposit from time to time in the related collection account, (4) all books and records pertaining to the relevant funding agreement and the related guarantee and (5) all rights of the trust pertaining to the foregoing.

Each series of notes will be secured by the collateral held in the applicable trust. The trust will collaterally assign and grant a security interest in the related funding agreement and the

related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.

Under the custodial agreement (the “custodial agreement”) entered into among the indenture trustee, Bankers Trust Company, N.A. (the “custodian”) and the trustee (on behalf of each trust to be formed in connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

#### Funding Agreements

A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

Each trust will use the net proceeds received from the sale of its series of notes to purchase a funding agreement issued by us, the terms of which will be set forth in the applicable pricing supplement. The funding agreement will have a deposit amount equal to the sum of the principal amount (or issue price in the case of discount notes) of the related series of notes and the amount of the beneficial interest in the related trust. The rate at which the funding agreement bears interest will be equal to the rate of interest, if any, on the related series of notes. The funding agreement will otherwise have substantially similar payment and other terms to the related series of notes.

Each funding agreement is our unsecured obligation. See “— Ratings” below.

In the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2 priority is given to the claims of the insurer’s policyholders and guaranty associations. We believe that, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders. See “Description of the Funding Agreements” in the accompanying prospectus.

Iowa law would apply to our insolvency or receivership proceedings. Investors should note, however, that the statutory liquidation priority accorded to funding agreements under Iowa law does not clearly apply to any additional amounts required to be paid (if specified in the applicable pricing supplement and related funding agreement) as may be necessary in order that the net amounts receivable by a holder after any withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction. Accordingly, in the event of our insolvency or receivership, claims under a funding agreement for such payments, if any, may not rank equally with either life insurance policy and annuity claims or funding agreement claims, and may rank equally with our unsecured debt obligations, which are given Class 5 priority under Iowa Code Section 507C.42. See “Description of the Funding Agreements” in the accompanying prospectus.

Guarantees

Our payment obligations under the funding agreement issued to each trust will be fully and unconditionally guaranteed by PFG under a guarantee issued by PFG to the trust as described in the accompanying prospectus. Each guarantee will be an unsecured, unsubordinated, contingent obligation of PFG. See “Description of the Guarantees” in the accompanying prospectus.

Ratings

Unless otherwise indicated in the applicable pricing supplement, the notes will have an issue credit rating of AA from Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”). Standard & Poor’s has rated the program AA. If Standard &



## Table of Contents

Poor's changes the program rating, the new program rating will be specified in the applicable pricing supplement. We expect the program to be rated Aa3 by Moody's Investors Service, Inc. ("Moody's"). If Moody's changes the program rating, the new program rating will be specified in the applicable pricing supplement. Notes of a series will be issued under the program only in the event that, at the time of issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.

### Indenture and Indenture Trustee

Each trust will issue its series of notes to the public pursuant to an indenture between that trust and Citibank, N.A., in its capacity as indenture trustee. The indenture is subject to the Trust Indenture Act of 1939, as amended. The indenture trustee is not affiliated with any trust, us or PFG.

### Administration of the Trusts

U.S. Bank Trust National Association, a national banking association, will be each trust's sole trustee (the "trustee"). The trustee will not be obligated in any way to make payments under or in respect of the notes. The trustee is not affiliated with us or PFG.

We have entered into an expense and indemnity agreement with each of the indenture trustee, the custodian, the trust beneficial owner, and the trustee (on behalf of itself and each trust formed in connection with the issuance of a series of notes). We will enter into an expense and indemnity agreement with additional service providers appointed from time to time. Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and servicing of any series of notes and certain costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers appointed from time to time with respect to certain matters.

### Trust Beneficial Owner

GSS Holdings II, Inc., a Delaware corporation, will be the sole beneficial owner of each trust (the "trust beneficial owner"). The beneficial interest of each trust:

- will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes), unless otherwise specified in the pricing supplement;
- will be issued in book-entry form only;
- will entitle the trust beneficial owner to receive payments in respect thereof on the same terms as the payments to be made to the holders of notes of the related series; and

- will be subordinated to the related series of notes.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series receive interest payments. On the maturity date of the trust beneficial owner's beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes to the holders of such notes and the principal amount of the beneficial interest to the trust beneficial owner.

The trust beneficial owner is not affiliated with us or PFG.

Governing Law

The notes and each indenture will be governed by, and construed in accordance with, the laws of the State of New York. Each guarantee issued by PFG will be governed by, and construed in accordance with, the laws of the State of New York. The trust agreement for the applicable trust will be governed by, and construed in accordance with, the laws of the jurisdiction in which it is formed. Each funding agreement will be governed by the laws of the State of Iowa.

## DESCRIPTION OF THE NOTES

The following description of the material provisions of the notes supplements the general description of the notes provided in the accompanying prospectus. You should therefore review the accompanying prospectus carefully. You should carefully review the information in this prospectus supplement. The pricing supplement for each offering of notes will contain the specific information and terms and conditions for that offering. As such, you should carefully review the information contained in the pricing supplement, including any description of the method of calculating interest on any note. The pricing supplement may also add, update, supplement or clarify information contained in this prospectus supplement or the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus, this prospectus supplement, the applicable pricing supplement, the indenture and the notes in making your investment decision.

This section describes some technical concepts and uses some capitalized terms that are not defined in this prospectus supplement. You should refer to the form of indenture and the form of note certificates filed as exhibits to the registration statement (of which this prospectus supplement and the accompanying prospectus are a part) for the full description of those concepts and complete definitions of these terms.

### General

#### *Indenture*

Each trust will issue one series of notes, subject to and entitled to the benefits of a separate indenture between the trust and the indenture trustee, which will adopt and incorporate the standard indenture terms. Such notes will be issued only on the original issue date for such notes. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the “indenture.” Each series of notes will be the subject of a pricing supplement. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. For a description of the terms of the indenture, see “Description of the Notes” beginning on page 20 of the accompanying prospectus.

At the date of this prospectus supplement, the notes offered pursuant to this prospectus supplement are limited to an aggregate initial public offering price or purchase price of up to \$4,000,000,000, or its equivalent in one or more foreign or composite currencies. This amount is subject to reduction as a result of the issuance of notes previously under this program, our Principal® Life CoreNotes® program or otherwise under the accompanying prospectus.

#### *Collateral*

The notes of a series will be the trust’s unconditional, direct, non-recourse, secured and unsubordinated obligations. Under the indenture, the funding agreement issued to and deposited into a trust by us, in exchange for the proceeds from the offering of its series of notes and trust beneficial interest, will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. A trust may purchase only one funding agreement from us and the principal amount of the funding agreement may not be increased. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Each series of notes will be secured by a security interest in the “collateral,” consisting of:

- the relevant funding agreement;
- the related guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;
- all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;

## Table of Contents

- all books and records pertaining to the relevant funding agreement and the related guarantee; and
- all of the trust's rights pertaining to the foregoing.

Under the custodial agreement, upon the collateral assignment and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

### **Ranking**

The notes of a series of a trust will rank equally among themselves.

### **Pricing Options**

Notes that bear interest will either be fixed rate notes or floating rate notes, or a combination of fixed rate and floating rate, as specified in the applicable pricing supplement. A trust may also issue discount notes and amortizing notes as specified in the applicable pricing supplement.

### **Pricing Supplement**

The pricing supplement relating to the offering of a series of notes will describe the following terms:

- the principal amount and specified currency for the note;
- whether the note:
  - (1) is a fixed rate note,
  - (2) is a floating rate note,
  - (3) is an amortizing note, meaning that a portion or all of the principal amount is payable prior to the stated maturity date in accordance with a schedule or by application of a formula, and/or
  - (4) is a discount note that does not bear any interest currently or bears interest at a rate that is below market rates at the time of issuance;
- the price at which the note will be issued, which will be expressed as a percentage of the aggregate principal amount or face amount;
- the original issue date on which the note will be issued;
- the stated maturity date;
- if the note is a fixed rate note, the rate per annum at which the note will bear any interest and the Interest Payment Date frequency;
- if the note is a floating rate note, relevant terms such as:
  - (1) the Interest Rate Basis,
  - (2) the Initial Interest Rate,
  - (3) the Interest Reset Period or the Interest Reset Dates,
  - (4) the Interest Payment Dates,
  - (5) the Index Maturity,
  - (6) any Maximum Interest Rate,
  - (7) any Minimum Interest Rate,

(8) the Spread and/or Spread Multiplier, and

(9) any other terms relating to the particular method of calculating the interest rate for the note and whether and how the Spread and/or Spread Multiplier may be changed prior to the stated maturity date;

- if the note is an amortizing note, the terms for repayment prior to the stated maturity date;
- whether the note may be redeemed by the trust, or repaid at the option of the holder, prior to the stated maturity date and the terms of its redemption or repayment, provided that any such redemption or repayment will be accompanied by the simultaneous redemption or repayment of the relevant funding agreement;
- any special United States federal income tax considerations relating to the purchase, ownership and disposition of the note;
- the jurisdiction of formation of the trust; and
- any other terms of the note provided in the accompanying prospectus to be set forth in a pricing supplement or that are otherwise consistent with the provisions of the indenture under which the note will be issued.

### ***Maturity***

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature on a day nine months or more from its date of original issuance on the last scheduled interest payment date (the “stated maturity date”), as specified in the applicable pricing supplement, unless the principal of such series becomes due and payable prior to the stated maturity date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the trust, notice of the registered holder’s option to elect repayment or otherwise (we refer to the stated maturity date or any date prior to the stated maturity date on which the particular series of notes becomes due and payable, as the case may be, as the “maturity date” with respect to the principal of such series of notes repayable on that date). Each series of notes will mature on or prior to 30 years from its date of original issuance.

### ***Currency***

Unless otherwise specified in the applicable pricing supplement, the notes of a series will be denominated in, and payments of principal, premium, if any, and/or interest, if any, in respect thereof will be made in, United States dollars. In the alternative, each series of notes may be denominated in, and payments of principal, premium, if any, and/or interest, if any, in respect thereof may be made in, a single foreign currency. The currency in which a particular series of notes is denominated (or, if that currency is no longer legal tender for the payment of public and private debts in the country issuing that currency or, in the case of the euro, in the member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union, the currency which is then legal tender in the related country or in the adopting member states of the European Union, as the case may be) is referred to as the “specified currency” with respect to such series of notes.

You will be required to pay for your notes in the specified currency. At the present time, there are limited facilities in the United States for the conversion of United States dollars into foreign currencies and vice versa, and commercial banks do not generally offer non-United States dollar checking or savings account facilities in the United States. The Agent from or through which a foreign currency note is purchased may be prepared to arrange for the conversion of United States dollars into the specified currency in order to enable you to pay for your foreign currency note, provided that you make a request to that Agent on or prior to the fifth business day (as defined below) preceding the date of delivery of the particular foreign currency note, or by any other day determined by that Agent. Each conversion will be made by an Agent on the terms and subject to the conditions, limitations and charges as that Agent may

## Table of Contents

from time to time establish in accordance with its regular foreign exchange practices. You will be required to bear all costs of exchange in respect of your foreign currency note.

A trust may (if so specified in the applicable pricing supplement), without the consent of the holders of any note, redenominate all, but not less than all, of the notes of any series on or after the date on which the member state of the European Union in whose national currency such notes are denominated has become a participant member in the third stage of the European economic and monetary union as more fully set out in the applicable pricing supplement.

### ***Form of Notes; Denominations***

Each trust will issue each note as a book-entry note represented by one or more fully registered global securities, unless otherwise specified in the applicable pricing supplement. Unless otherwise specified in the applicable pricing supplement, the minimum denominations of each note will be \$1,000 and integral multiples of \$1,000 in excess thereof.

### ***Listing***

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

### ***Payments***

A trust will make payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, on book-entry notes through the indenture trustee to the account of the depositary or its nominee. See “— Book Entry Notes.” In the case of definitive notes, the trust will make payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, on the maturity date in immediately available funds upon presentation and surrender thereof (and, in the case of any repayment on an optional repayment date, upon submission of a duly completed election form if and as required by the provisions described below) at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, which is currently the paying agency office of the indenture trustee located at 111 Wall Street, 14th Floor, Zone 3, New York, New York 10005. A trust will make payments of interest and other amounts due and owing, if any, on the maturity date of a definitive note to the person to whom payment of the principal thereof and premium, if any, thereon shall be made. A trust will make payments of interest and other amounts due and owing, if any, on a definitive note on any Interest Payment Date (as defined below) other than the maturity date by check mailed to the address of the registered holder entitled thereto appearing in the note register. Notwithstanding the foregoing, the trust will make payments of interest and other amounts due and owing, if any, on a definitive note on any Interest Payment Date other than the maturity date to each registered holder of \$10,000,000 (or, if the specified currency is other than United States dollars, the equivalent thereof in the particular specified currency) or more in aggregate principal amount of definitive notes (whether having identical or different terms and provisions) by wire transfer of immediately available funds if the applicable registered holder has delivered appropriate wire transfer instructions in writing to the indenture trustee not less than 15 calendar days prior to the particular Interest Payment Date. Any wire transfer instructions received by the indenture trustee shall remain in effect until revoked by the applicable registered holder.

### ***Business Day***

“Business day” means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; provided, however, that, with respect to foreign currency notes, the day must also not be a day on which commercial banks are authorized or required by law, regulation or executive order to close in the Principal Financial Center (as defined below) of the country issuing the specified currency (or, if the specified currency is the euro, the day must also be a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open);

## Table of Contents

provided, further, that, with respect to notes as to which LIBOR (as defined below) is an applicable Interest Rate Basis, the day must also be a London Banking Day, which means a day on which commercial banks are open for business (including dealings in the LIBOR Currency (as defined below)) in London.

### ***Principal Financial Center***

“Principal Financial Center” means, as applicable:

- the capital city of the country issuing the specified currency; or
- the capital city of the country to which the LIBOR Currency relates;

provided, however, that with respect to United States dollars, Australian dollars, Canadian dollars, the euro, South African rand and Swiss francs, the “Principal Financial Center” shall be The City of New York, Sydney, Toronto, London (solely in the case of the LIBOR Currency), Johannesburg and Zurich, respectively.

### ***Registration and Transfer of Notes***

Book-entry notes may be transferred or exchanged only through the clearing systems (described below). Registration of transfer or exchange of definitive notes will be made at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, which is currently the corporate trust office of the indenture trustee located at 111 Wall Street, 14th Floor, Zone 3, New York, New York 10005. No service charge will be imposed for any such registration of transfer or exchange of notes, but the trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than certain exchanges not involving any transfer).

### ***Withholding Tax and Payment of Additional Amounts***

All amounts due in respect of the notes will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified in the applicable pricing supplement, the trust will not pay any additional amounts to holders of any series of notes in respect of any such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem the notes of such series and each holder of a note of the applicable series will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such holder’s interest in the notes as equitably determined by the trust.

If it is specified in the applicable pricing supplement and funding agreement that we have agreed to pay additional amounts to the trust to reflect any required withholding or deduction under the funding agreement and we are required, or based on an opinion of independent legal counsel selected by us a material probability exists that we will be required, to pay additional amounts in respect of such withholding or deduction, pursuant to (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the applicable funding agreement, we will have the right to redeem the affected funding agreement by giving not less than 30 and no more than 60 days prior written notice to the trust and by paying the trust the outstanding principal of, and accrued but unpaid interest on, the related funding agreement or such other amount as is specified in the applicable pricing supplement. If we redeem the related funding agreement

issued to the trust, the related trust will redeem all of the notes of the applicable series as provided in the indenture.

On June 3, 2003, the European Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from January 1, 2005, provided that certain non-Member State countries adopt similar measures from the same date. Under the directive, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-Member State countries to the exchange of information relating to such payments. For the avoidance of doubt, should any deduction or withholding on account of tax be required to be made, or be made, pursuant to the directive no additional amounts shall be paid or payable by the trust with respect to its series of notes.

### **Tax Redemption**

If a “tax event” as to the relevant funding agreement occurs, we will have the right to redeem the funding agreement and, upon such redemption, the applicable trust will redeem its series of notes in the same manner described under “— Optional Redemption; Optional Repayment; No Sinking Fund” below. For further discussion of “tax event” redemption, see “Description of the Funding Agreements — Early Redemption for Tax Event” in the accompanying prospectus.

### **Security; Non-Recourse Obligations**

Each series of notes will be solely the obligations of the related trust and will not be guaranteed by any person, including but not limited to us, PFG, any Agent, any of our or their affiliates or any other trust. A trust’s obligations under its series of notes will be secured by all of its rights and title in a funding agreement issued by us, the payment obligations of which are guaranteed by the related guarantee issued by PFG to the trust and other rights and assets included in the applicable collateral held in the trust.

Since we will be the sole obligor under the funding agreement and PFG will be the sole obligor under the related guarantee, the trust’s ability to meet its obligations, and your ability to receive payments from the trust, with respect to the applicable series of notes, will be principally dependent upon our ability to perform our obligations under the applicable funding agreement held in the relevant trust and PFG’s ability to perform its obligations under the guarantee of our payment obligations under the related funding agreement. However, you will have no direct contractual rights against us or PFG under the funding agreement or the guarantee, respectively. Under the terms of the funding agreement and related guarantee, recourse rights to us or PFG, respectively, will belong to the trust, its successors and its permitted assignees, but only with respect to the relevant trust. In connection with the offering and sale of a series of notes, the trust will collaterally assign and grant a security interest in the relevant funding agreement for such series of notes to, and the trust will collaterally assign and grant a security interest in the related guarantee in favor of, the indenture trustee for the benefit of the holders of such series of notes. Accordingly, recourse to us under such funding agreement and to PFG under the related guarantee will be enforceable only by the indenture trustee as a secured party on behalf of the holders of such series of notes, or by the holders of such series of notes by directing the indenture trustee under the limited circumstances described in the accompanying prospectus under “Description of the Notes — Certain Rights of Holders.” See also “Description of the Notes — Nonrecourse Enforcement” in the accompanying prospectus.



### **Optional Redemption; Optional Repayment; No Sinking Fund**

In the case of notes that are not discount notes, if an optional redemption date is specified in the pricing supplement relating to a series of notes, and we have redeemed the related funding agreement in full or part, as applicable, the related trust will redeem the series of notes secured by such funding agreement, in full or in part as applicable, prior to the stated maturity date of such series of notes. Such redemptions shall be made in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at the applicable redemption price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. The trust must give written notice to the holders of the particular series of notes to be redeemed not more than 60 nor less than 30 calendar days prior to the date of redemption. "Redemption price," with respect to a series of notes, means an amount equal to the initial redemption percentage specified in the applicable pricing supplement (as adjusted by the annual redemption percentage reduction, as described in the pricing supplement, if applicable) multiplied by the unpaid principal amount thereof to be redeemed. The initial redemption percentage, if any, applicable to a series of notes shall decline at each anniversary of the initial redemption date by an amount equal to the applicable annual redemption percentage reduction, if any, until the redemption price is equal to 100% of the unpaid amount thereof to be redeemed. Notes that may be redeemed at a time when 20% or more of the original principal amount of such notes are outstanding will be designated in their title as "callable" in the relevant pricing supplement. For a discussion of the redemption of discount notes, see "— Discount Notes."

If fewer than all of the notes are to be redeemed, DTC will select the notes to be redeemed not more than 60 calendar days prior to the redemption date by lot or, if the notes are not in book-entry form, the indenture trustee will do so, in its reasonable discretion, by lot or on a pro rata basis in accordance with its customary procedures. If any note is redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued.

If an optional repayment right is specified in the pricing supplement relating to a series of notes, such notes may be subject to repayment at the option of the holders of such series of notes on any repayment date specified in the applicable pricing supplement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the notes shall be repayable in whole or in part in increments of \$1,000 at the option of the holders thereof at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. A holder of a series of notes exercising its repayment right must submit to the indenture trustee at its corporate trust office, or at such other place or places of which the relevant trust has notified such holder, the notes to be repaid together with the "option to elect repayment" form attached to the notes not more than 60 nor less than 30 calendar days prior to the date of repayment. Exercise of such repayment right by a holder shall be irrevocable. If a holder requests repayment in part only, a new note in principal amount equal to the principal portion of the notes not repaid will be issued.

Only DTC may exercise a repayment option in respect of notes issued in book-entry form. Accordingly, beneficial owners of notes that desire to exercise their repayment option, if any, with respect to all or any portion of such notes, must instruct the participant through which they own their interest to direct DTC to exercise the repayment option on their behalf by delivering the duly completed election form to the indenture trustee as aforesaid. In order to ensure that the election form is received by the indenture trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before such participant's deadline for accepting instructions for that day. Participants may have different deadlines for accepting instructions from their customers. Accordingly, a beneficial owner should consult the participant through which it owns its interest in the notes for the participant's deadline for receiving payment instructions. In addition, at the time such instructions are given, each such beneficial owner will cause such participant to transfer such beneficial owner's interest in the notes issued in book-entry form, on DTC's records, to the indenture trustee.

## [Table of Contents](#)

No series of notes will be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the applicable pricing supplement. A trust may issue amortizing notes that pay a level amount in respect of both interest and principal over the life of the notes, if specified in the applicable pricing supplement. See “— Amortizing Notes.”

### **Purchase of Notes by Us**

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us will be surrendered to the indenture trustee for cancellation. Concurrently with the surrender to the indenture trustee of any note, the funding agreement related to such note will be similarly cancelled.

If applicable, such trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repurchase of the notes by us.

### **Interest**

Each interest-bearing series of notes will bear interest from its date of issue at the rate per annum, in the case of notes that bear interest at fixed rates, or pursuant to the interest rate formula, in the case of notes that bear interest at floating rates, in each case as specified in the applicable pricing supplement, until the principal thereof is paid or made available for payment. The trust will make interest payments in respect of each series of notes in an amount equal to the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be (each, an “interest period”).

Interest on each series of notes will be payable in arrears on each interest payment date, to the registered holder at the close of business on the regular interest record date (as defined below) (except that interest, if any, due at maturity will be paid to the person to whom the principal of the note is paid), and on the maturity date. The first payment of interest on any series of notes originally issued between a regular interest record date and the related interest payment date will be made on the interest payment date immediately following the next succeeding regular interest record date to the registered holder on the next succeeding regular interest record date. The “regular interest record date” shall be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day.

### **Fixed Rate Notes**

In the case of each series of notes that bear interest at fixed rates, the applicable pricing supplement will specify the fixed interest rate per annum applicable to each note and the frequency with which interest is payable. Interest on each series of notes that bears interest at fixed rates will be computed on the basis of a 360-day year of twelve 30-day months.

## Table of Contents

Unless otherwise specified in the applicable pricing supplement, the interest payment dates for fixed rate notes will be as follows:

<u>Interest Payment Frequency</u>	<u>Interest Payment Dates</u>
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month the note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month the note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month the note was issued.

If any interest payment date or the maturity date of a series of notes that bear interest at fixed rates falls on a day that is not a business day, the applicable trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

### **Floating Rate Notes**

Interest on each series of notes that bears interest at floating rates will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- the Federal Funds Rate;
- LIBOR;
- EURIBOR;
- the Prime Rate;
- the Treasury Rate; or
- any other Interest Rate Basis or interest rate formula as may be specified in the applicable pricing supplement.

The applicable pricing supplement will specify certain terms of the particular series of notes that bears interest at floating rates, including:

- whether the note that bears interest at floating rates is:
  - a “Regular Floating Rate Note;”
  - a “Floating Rate/ Fixed Rate Note;” or
  - an “Inverse Floating Rate Note;”
- the Fixed Rate Commencement Date, if applicable;
- Fixed Interest Rate, if applicable;
- Interest Rate Basis or Interest Rate Bases;

## Table of Contents

- Initial Interest Rate, if any;
- Interest Reset Dates;
- Interest Payment Dates;
- Index Maturity;
- Maximum Interest Rate and/or Minimum Interest Rate, if any;
- Spread and/or Spread Multiplier; or
- if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

- if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined below) immediately preceding that Interest Reset Date; or
- if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The “Spread” is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates. The “Spread Multiplier” is the percentage specified in the applicable pricing supplement of the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The “Index Maturity” is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

### ***Regular Floating Rate Notes***

Unless a series of notes that bears interest at floating rates is designated as a series of Floating Rate/ Fixed Rate Notes or a series of Inverse Floating Rate Notes, or as having an addendum attached or having other/additional provisions apply, in each case relating to a different interest rate formula, such series of notes that bears interest at floating rates will be a series of Regular Floating Rate Notes and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

- plus or minus the applicable Spread, if any; and/or
- multiplied by the applicable Spread Multiplier, if any.

Commencing on the first Interest Reset Date, as specified in the relevant pricing supplement, the rate at which interest on a series of Regular Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

### ***Floating Rate/ Fixed Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Floating Rate/ Fixed Rate Notes, such series of notes that bears interest at floating rates will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

- plus or minus the applicable Spread, if any; and/or
- multiplied by the applicable Spread Multiplier, if any.

## Table of Contents

Commencing on the first Interest Reset Date, the rate at which interest on a series of Floating Rate/ Fixed Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that:

- the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate, as specified in the relevant pricing supplement; and
- the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the applicable pricing supplement, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

### ***Inverse Floating Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Inverse Floating Rate Notes, such series of notes that bears interest at floating rates will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

- plus or minus the applicable Spread, if any; and/or
- multiplied by the applicable Spread Multiplier, if any;

provided, however, that interest on a series of Inverse Floating Rate Notes will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on a series of Inverse Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

### ***Interest Reset Dates***

The applicable pricing supplement will specify the dates on which the rate of interest on a series of notes that bears interest at floating rates will be reset (each, an “Interest Reset Date”), and the period between Interest Reset Dates will be the “Interest Reset Period.” Unless otherwise specified in the applicable pricing supplement, the Interest Reset Dates will be, in the case of a series of notes that bears interest at floating rates which reset:

- *daily* — each business day;
- *weekly* — the Wednesday of each week, with the exception of weekly reset series of notes that bear interest at floating rates as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;
- *monthly* — the fifteenth day of each calendar month, with the exception of monthly reset series of notes that bear interest at floating rates as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month;
- *quarterly* — the fifteenth day of March, June, September and December of each year;
- *semi-annually* — the fifteenth day of the two months of each year specified in the applicable pricing supplement; and
- *annually* — the fifteenth day of the month of each year specified in the applicable pricing supplement;

provided, however, that, with respect to any series of Floating Rate/ Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, the particular Interest Reset Date will be postponed to the

## Table of Contents

next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding business day.

### ***Interest Determination Dates***

The interest rate applicable to a series of notes that bears interest at floating rates for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular “Interest Determination Date,” which will be:

- *with respect to the Commercial Paper Rate, Federal Funds Rate and the Prime Rate* — the business day immediately preceding the related Interest Reset Date;
- *with respect to the CD Rate and the CMT Rate* — the second business day preceding the related Interest Reset Date;
- *with respect to the Eleventh District Cost of Funds Rate* — the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below);
- *with respect to LIBOR and EURIBOR* — the second London Banking Day preceding the related Interest Reset Date; and
- *with respect to the Treasury Rate* — the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday.

The Interest Determination Date pertaining to a series of notes that bears interest at floating rates the interest rate of which is determined with reference to two or more Interest Rate Bases will be the latest business day which is at least two business days before the related Interest Reset Date for the applicable note that bears interest at floating rates on which each Interest Reset Basis is determinable.

### ***Calculation Dates***

The indenture trustee will be the “Calculation Agent,” unless otherwise specified in the applicable pricing supplement. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the registered holder of a series of notes that bears interest at floating rates, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular series of notes that bears interest at floating rates. The “Calculation Date,” if applicable, pertaining to any Interest Determination Date will be the earlier of:

- the tenth calendar day after the particular Interest Determination Date or, if such day is not a business day, the next succeeding business day; or
- the business day immediately preceding the applicable Interest Payment Date or the maturity date, as the case may be.

### **Maximum and Minimum Interest Rates**

A series of notes that bears interest at floating rates may also have either or both of the following if specified in the applicable pricing supplement:

- a maximum numerical limitation, or ceiling, that may accrue during any Interest Reset Period (a “Maximum Interest Rate”); and
- a minimum numerical limitation, or floor, that may accrue during any Interest Reset Period (a “Minimum Interest Rate”).

In addition to any Maximum Interest Rate that may apply to a series of notes that bears interest at floating rates, the interest rate on a series of notes that bears interest at floating rates will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

### **Interest Payments**

Unless otherwise specified in the applicable pricing supplement, interest on each series of notes that bears interest at floating rates will be payable on the date(s) set forth below (each, an “Interest Payment Date” with respect to such series of notes that bears interest at floating rates). Unless otherwise specified in the applicable pricing supplement, the Interest Payment Dates will be, in the case of a series of notes that bears interest at floating rates which reset:

- *daily, weekly or monthly* — the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified in the applicable pricing supplement;
- *quarterly* — the fifteenth day of March, June, September and December of each year;
- *semi-annually* — the fifteenth day of the two months of each year specified in the applicable pricing supplement; and
- *annually* — the fifteenth day of the month of each year specified in the applicable pricing supplement.

In addition, the maturity date will also be an Interest Payment Date.

If any Interest Payment Date other than the maturity date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, such Interest Payment Date will be postponed to the next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding business day. If the maturity date of a series of notes that bears interest at floating rates falls on a day that is not a business day, the trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

All percentages resulting from any calculation on notes that bear interest at floating rates will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in or resulting from any calculation on notes that bear interest at floating rates will be rounded, in the case of United States dollars, to the nearest cent or, in the case of a foreign currency, to the nearest unit (with one-half cent or unit being rounded upwards).

With respect to each series of notes that bears interest at floating rates, accrued interest is calculated by multiplying the principal amount of such note that bears interest at floating rates by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by

## Table of Contents

dividing the interest rate applicable to such day by 360, in the case of a series of notes that bears interest at floating rates as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a series of notes that bears interest at floating rates as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a series of notes that bears interest at floating rates as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable pricing supplement applied.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

### **CD Rate**

“CD Rate” means:

(1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the caption “CDs (secondary market);” or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “CDs (secondary market);” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date.

“H.15(519)” means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

### **CMT Rate**

“CMT Rate” means:

(1) if CMT Moneyline Telerate Page 7051 is specified in the applicable pricing supplement:

(a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “Treasury Constant Maturities”,



## Table of Contents

as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) (“Moneyline Telerate Page 7051”), for the particular Interest Determination Date; or

(b) if the rate referred to in clause (a) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities;” or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the Agents or their affiliates) (each, a “Reference Dealer”) selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Moneyline Telerate Page 7052 is specified in the applicable pricing supplement:

(a) the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) opposite the caption “Treasury Constant Maturities”, as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) (“Moneyline Telerate Page 7052”), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(b) if the rate referred to in clause (a) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption “Treasury Constant Maturities;” or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

Table of Contents

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

**Commercial Paper Rate**

“Commercial Paper Rate” means:

(1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “Commercial Paper — Nonfinancial;” or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper — Nonfinancial;” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date.

“Money Market Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the applicable Interest Reset Period.

**Eleventh District Cost of Funds Rate**

“Eleventh District Cost of Funds Rate” means:

(1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption “11th District” on the display on Moneyline Telerate (or any successor service) on page 7058 (or any other page as may replace the specified page on that service)

## Table of Contents

(“Moneyline Telerate Page 7058”) as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or

(2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 7058, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the “Eleventh District Index”) by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or

(3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date, the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

### **Federal Funds Rate**

“Federal Funds Rate” means:

(1) the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15(519) under the caption “Federal Funds (Effective)” and displayed on Moneyline Telerate (or any successor service) on page 120 (or any other page as may replace the specified page on that service) (“Moneyline Telerate Page 120”); or

(2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 120 or is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Federal Funds (Effective);” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent prior to 9:00 A.M., New York City time, on that Interest Determination Date; or

(4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate in effect on the particular Interest Determination Date.

### **LIBOR**

“LIBOR” means:

(1) if “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement or if neither “LIBOR Reuters” nor “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency having the Index Maturity specified in the applicable pricing supplement, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(2) if “LIBOR Reuters” is specified in the applicable pricing supplement, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

## Table of Contents

(3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the Agents) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the Agents) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date.

“LIBOR Currency” means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no currency is specified in the applicable pricing supplement, United States dollars.

“LIBOR Page” means either:

- if “LIBOR Reuters” is specified in the applicable pricing supplement, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or
- if “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement or neither “LIBOR Reuters” nor “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

## **EURIBOR**

“EURIBOR” means:

(1) with respect to any Interest Determination Date relating to a series of EURIBOR Notes or a series of notes that bears interest at floating rates for which the interest rate is determined with reference to EURIBOR (a “EURIBOR Interest Determination Date”), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI — The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date, as the rate appears on Moneyline Telerate or any successor service, on page 248 (or any other page as may replace that specified page on the service) (“Moneyline Telerate Page 248”) as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or

## Table of Contents

(2) if such rate does not appear on Moneyline Telerate Page 248, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or

(3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified in the applicable pricing supplement, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or

(4) if the banks so selected by the Calculation Agent are not quoting as mentioned above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date.

“Euro-zone” means the region comprised of member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union.

### **Prime Rate**

“Prime Rate” means:

(1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption “Bank Prime Loan;” or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Bank Prime Loan;” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank’s prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or

(4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the Agents) in The City of New York selected by the Calculation Agent; or

[Table of Contents](#)

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date.

“Reuters Screen US PRIME 1 Page” means the display on the Reuter Monitor Money Rates Service (or any successor service) on the “US PRIME 1” page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

**Treasury Rate**

“Treasury Rate” means:

(1) the rate from the auction held on the Treasury Rate Interest Determination Date (the “Auction”) of direct obligations of the United States (“Treasury Bills”) having the Index Maturity specified in the applicable pricing supplement under the caption “INVESTMENT RATE” on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) (“Moneyline Telerate Page 56”) or page 57 (or any other page as may replace that page on that service) (“Moneyline Telerate Page 57”); or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/ Treasury Bills/ Auction High”; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or

(4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption “U.S. Government Securities/ Treasury Bills/ Secondary Market;” or

(5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/ Treasury Bills/ Secondary Market”; or

(6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the Agents or their affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement; or

(7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date.

“Bond Equivalent Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

## [Table of Contents](#)

where “D” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the applicable Interest Reset Period.

### **Other/ Additional Provisions; Addendum**

Any provision with respect to a series of notes, including the specification and determination of one or more Interest Rate Bases, the calculation of the interest rate applicable to a note that bears interest at floating rates, the interest payment dates, the stated maturity date, any redemption or repayment provisions or any other term relating to the applicable notes, may be modified and/or supplemented as specified under “Other/ Additional Provisions” on the face thereof or in an addendum relating thereof, if so specified on the face thereof and in each case described in the applicable pricing supplement.

### **Discount Notes**

A trust may issue a series of notes (“Discount Notes”) that has an Issue Price (as specified in the applicable pricing supplement) that is less than 100% of the principal amount thereof (i.e. par) by more than a percentage equal to the product of 0.25% and the number of full years to the stated maturity date. A series of Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a series of Discount Notes and par is referred to as the “Discount.” In the event of redemption, repayment or acceleration of maturity of a series of Discount Notes, the amount payable to the holders of such series of Discount Notes will be equal to the sum of:

- the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such series of Discount Notes, if applicable, multiplied by the initial redemption percentage (as adjusted by the annual redemption percentage reduction, if applicable); and
- any unpaid interest accrued on such series of Discount Notes to the maturity date.

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a series of Discount Notes, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable series of Discount Notes (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable series of Discount Notes and an assumption that the maturity of such series of Discount Notes will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a series of Discount Notes (the “Initial Period”) is shorter than the compounding period for such series of Discount Notes, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended, certain series of Discount Notes may not be treated as having original issue discount within the meaning of such Code, and certain series of notes other than Discount Notes may be treated as issued with original issue discount for United States federal income tax purposes. See “Material United States Federal Income Tax Considerations.”

### **Amortizing Notes**

A trust may issue a series of notes (“Amortizing Notes”) with the amount of principal thereof and interest thereon payable in installments over their terms. Unless otherwise specified in the applicable pricing supplement, interest on each series of Amortizing Notes will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to a series of Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount



## [Table of Contents](#)

thereof. Further information concerning additional terms and provisions of a particular series of Amortizing Notes will be specified in the applicable pricing supplement, including a table setting forth repayment information for such series of Amortizing Notes.

### **Book-Entry Notes**

We have established a depository arrangement, on behalf of the trusts, with DTC with respect to the book-entry notes, the terms of which are summarized below.

All book-entry notes having the same terms will be represented by one or more global securities. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or its nominee. No global security may be transferred or exchanged except as a whole by DTC or a nominee of DTC to DTC or to another nominee of DTC, or by DTC or another nominee of DTC to a successor of DTC or a nominee of a successor to DTC. So long as DTC or its nominee is the registered holder of a global security, DTC or its nominee will be the sole owner of the related book-entry notes represented thereby for all purposes under the indenture. Except as otherwise provided below, the beneficial owners of the global security or securities represented by book-entry notes will not be entitled to receive physical delivery of definitive notes and will not be considered the registered holders of the book-entry notes for any purpose under the indenture and no global security representing book-entry notes will be exchangeable or transferable. As a result, to exercise any rights of a registered holder under the indenture, a beneficial owner must rely on the procedures of DTC and, if the beneficial owner is not a participant, on the procedures of the participant or participants through which the beneficial owner owns its interest. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in a global security represented by book-entry notes.

Each global security representing book-entry notes will be exchangeable for definitive notes having the same terms in a like aggregate principal amount only if:

- the trust notifies the indenture trustee that the trust wishes in its sole discretion to exchange the global security for definitive notes;
- an event of default on the notes of that series has occurred and has not been cured; or
- DTC notifies us that it is unwilling or unable to continue as a clearing system for the global securities, or we have become aware that it has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor clearing system is not appointed by us within 60 calendar days after receiving the notice from DTC or becoming aware that DTC is no longer registered.

If any of these events occurs, the appropriate trust will print and deliver definitive notes. Definitive notes issued under these circumstances will be registered in the names of the beneficial owners of the related global securities as provided to the indenture trustee by the participants identified by DTC.

### **About the Depository**

The following is based on information furnished by DTC:

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully registered securities in the name of Cede & Co. (DTC's nominee) or another name requested by DTC. One fully registered global security will be issued for each issue of a series of book-entry notes in the aggregate principal amount of that issue and will be deposited with, or on behalf of, DTC. If the aggregate principal amount of any issue exceeds DTC's limit for a single global security, then the global securities will be issued in the form of one or more global securities having a principal amount equal to DTC's limit and one or more additional global securities representing any remaining principal amount.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve

## Table of Contents

System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants deposit with it. DTC also facilitates the settlement among direct participants of transactions in deposited securities, such as transfers and pledges, through electronic computerized book-entry changes in direct participants’ accounts. This eliminates the need for physical movement of securities certificates. DTC’s direct participants include securities brokers and dealers (including the purchasing agent), banks, trust companies, clearing corporations and other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Under DTC’s system, purchases of book-entry notes must be made by or through direct participants, which will receive a credit for the book-entry notes on DTC’s records. The ownership interest of the actual purchaser is in turn recorded on the records of the direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which they entered into the transaction. Transfers of ownership interests in book-entry notes are accomplished by entries made on the books of the direct and indirect participants acting on behalf of the beneficial owners. Beneficial owners will not receive definitive notes unless use of the book-entry system is discontinued as described above.

To facilitate subsequent transfers, all global securities representing the book-entry notes deposited with, or on behalf of, DTC will be registered in the name of DTC’s nominee, Cede & Co., or any other name that DTC requests. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the book-entry notes; DTC’s records reflect only the identity of the direct participants to whose accounts the book-entry notes are credited, which may or may not be the beneficial owners. DTC’s participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications from DTC to direct participants, from direct participants to indirect participants and from direct participants and indirect participants to beneficial owners are governed by arrangements among them and are subject to statutory and regulatory requirements.

Neither DTC nor Cede & Co. will consent or vote with respect to global securities. Under its usual procedures, DTC mails an omnibus proxy to a company as soon as possible after a record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those direct participants to whose accounts the book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

The trust will make payments on the global securities in immediately available funds to Cede & Co. or any other nominee named by DTC. DTC’s practice is to credit direct participants’ accounts on the applicable payment date in accordance with their respective holdings shown on DTC’s records unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners are governed by standing instructions and customary practices and are subject to statutory and regulatory requirements. The trust and the trustee are responsible only for making payments to DTC; DTC is responsible for disbursing those payments to its direct participants and the direct participants (and any indirect participants) are solely responsible for disbursing those payments to the beneficial owners.

Any redemption notices will be sent to Cede & Co. If less than all of the book-entry notes having the same terms are being redeemed, DTC’s current practice is to determine by lot the amount of the interest of each direct participant in those notes to be redeemed.

## [Table of Contents](#)

A beneficial owner must give notice of any election to have its book-entry notes repaid through its participant to the trustee. Delivery of the book-entry notes will be effected by causing the relevant direct participant to transfer the relevant part of its interest in the global securities to the trustee on DTC's records.

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to us or the indenture trustee. If we do not obtain a successor securities depository, the applicable trust will print and deliver definitive notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If we do so, the applicable trust will print and deliver definitive notes.

### **SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES**

#### **General**

Unless otherwise specified in the applicable pricing supplement, foreign currency notes will not be sold in, or to residents of, the country issuing the specified currency. The information set forth in this prospectus supplement is directed to prospective purchasers who are United States residents and, with respect to foreign currency notes, is by necessity incomplete. We, PFG, the trusts and the Agents disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payments of principal of, and premium, if any, and interest, if any, on, their foreign currency notes. These purchasers should consult their own financial and legal advisors with regard to these risks. See "Risk Factors — Risk Factors Relating to the Notes — If the trust issues notes denominated in a foreign currency, those notes are subject to exchange rate and exchange control risks" in the accompanying prospectus.

#### **Payment of Principal, Premium, if Any, and Interest, if Any**

Unless otherwise specified in the applicable pricing supplement, a trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, a foreign currency note in the specified currency. Any amounts so payable by the trust in the specified currency will be converted by the exchange rate agent named in the applicable pricing supplement (the "exchange rate agent") into United States dollars for payment to the registered holders thereof unless otherwise specified in the applicable pricing supplement or a registered holder elects, in the manner described below, to receive these amounts in the specified currency.

Any United States dollar amount to be received by a registered holder of a foreign currency note will be based on the highest bid quotation in The City of New York received by the exchange rate agent at approximately 11:00 A.M., New York City time, on the second business day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the exchange rate agent) selected by the exchange rate agent and approved by the trust for the purchase by the quoting dealer of the specified currency for United States dollars for settlement on that payment date in the aggregate amount of the specified currency payable to all registered holders of foreign currency notes scheduled to receive United States dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the registered holders of foreign currency notes by deductions from any payments. If three bid quotations are not available, payments will be made in the specified currency.

Registered holders of foreign currency notes may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the specified currency by submitting a written request to the indenture trustee at its corporate trust office in The City of New York on or prior to the applicable regular record date or at least 15 calendar days prior to the maturity date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the indenture

## Table of Contents

trustee on or prior to a regular record date or at least 15 calendar days prior to the maturity date, as the case may be. Registered holders of foreign currency notes to be held in the name of a broker or nominee should contact their broker or nominee to determine whether and how an election to receive payments in the specified currency may be made.

Unless otherwise specified in the applicable pricing supplement, if the specified currency is other than United States dollars, a beneficial owner of a global security which elects to receive payments of principal, premium, if any, and/or interest, if any, in the specified currency must notify the participant through which it owns its interest on or prior to the applicable record date or at least 15 calendar days prior to the maturity date, as the case may be, of its election. The applicable participant must notify the depository of its election on or prior to the third business day after the applicable record date or at least 12 calendar days prior to the maturity date, as the case may be, and the depository will notify the indenture trustee of that election on or prior to the fifth business day after the applicable record date or at least ten calendar days prior to the maturity date, as the case may be. If complete instructions are received by the participant from the applicable beneficial owner and forwarded by the participant to the depository, and by the depository to the trustee, on or prior to such dates, then the applicable beneficial owner will receive payments in the specified currency.

A trust will make payments of the principal of, and premium, if any, and/or interest, if any, on foreign currency notes which are to be made in United States dollars in the manner specified herein with respect to notes denominated in United States dollars. See “Description of the Notes — General.” A trust will make payments of interest, if any, on foreign currency notes which are to be made in the specified currency on an Interest Payment Date other than the maturity date by check mailed to the address of the registered holders of their foreign currency notes as they appear in the register, subject to the right to receive these payments by wire transfer of immediately available funds under the circumstances described under “Description of the Notes — General.” A trust will make payments of principal of, and premium, if any, and/or interest, if any, on, foreign currency notes which are to be made in the specified currency on the maturity date by wire transfer of immediately available funds to an account with a bank designed at least 15 calendar days prior to the maturity date by the applicable registered holder, provided the particular bank has appropriate facilities to make these payments and the particular foreign currency note is presented and surrendered at the office or agency maintained by the trust for this purpose in the Borough of Manhattan, The City of New York, in time for the indenture trustee to make these payments in accordance with its normal procedures.

### **Availability of Specified Currency**

If the specified currency for foreign currency notes is not available for any required payment of principal, premium, if any, and/or interest, if any, due to the imposition of exchange controls or other circumstances beyond its control, a trust will be entitled to satisfy its obligations to the registered holders of these foreign currency notes by making payments in United States dollars on the basis of the market exchange rate, computed by the exchange rate agent, on the second business day prior to the particular payment or, if the market exchange rate is not then available, on the basis of the most recently available market exchange rate.

The “market exchange rate” for a specified currency other than United States dollars means the noon dollar buying rate in The City of New York for cable transfers for the specified currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

All determinations made by the exchange rate agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the registered holders of the foreign currency notes.

## Judgments

Under current New York law, a state court in the State of New York would be required to render a judgment in respect of a foreign currency note in the specified currency, and a judgment in the specified currency would be converted into United States dollars at the exchange rate prevailing on the date of entry of the judgment. Accordingly, registered holders of foreign currency notes would be subject to exchange rate fluctuations between the date of entry of a foreign currency judgment and the time when the amount of the foreign currency judgment is paid in United States dollars and converted by the applicable registered holder into the specified currency. It is not certain, however, whether a non-New York state court would follow the same rules and procedures with respect to conversions of foreign currency judgments.

Each trust will indemnify the registered holder of any of its notes against any loss incurred as a result of any judgment or order being given or made for any amount due under the particular note and that judgment or order requiring payment in a currency (the “judgment currency”) other than the specified currency, and as a result of any variation between:

- the rate of exchange at which the specified currency amount is converted into the judgment currency for the purpose of that judgment or order; and
- the rate of exchange at which the registered holder, on the date of payment of that judgment or order, is able to purchase the specified currency with the amount of the judgment currency actually received.

## DESCRIPTION OF THE FUNDING AGREEMENTS

Each trust will use the net proceeds from the issuance of a series of notes to the public and the issuance of the trust beneficial interest to the trust beneficial owner to purchase a funding agreement. The funding agreement will have substantially similar payment and other terms to the related series of notes. The funding agreement may be interest bearing or non-interest bearing. A funding agreement may bear interest at either a fixed or a floating rate, or a combination of fixed and floating rates, as specified in the applicable pricing supplement. The calculation of the interest rate, the dates of interest and maturity payments and such other payment terms on the funding agreement will be determined in the same manner as described above under “Description of the Notes.” An amount equal to the funding agreement deposit plus accrued but unpaid interest, if any, and accrued discount, if any (in the case of a discount funding agreement) (other than an amortizing funding agreement) will be payable on its stated maturity date, as specified in the applicable pricing supplement. We may issue an amortizing funding agreement that pays an amount in respect of both interest and deposit amount over the life of the funding agreement, if specified in the applicable pricing supplement.

The pricing supplement relating to a series of notes will describe the following pricing terms of the related funding agreement:

- the deposit amount and the specified currency for the funding agreement;
- whether the funding agreement:
  - (1) is a fixed rate funding agreement,
  - (2) is a floating rate funding agreement,
  - (3) is an amortizing funding agreement, meaning that a portion or all of the deposit amount is payable prior to the stated maturity in accordance with a schedule or by application of a formula, and/or
  - (4) is a discount funding agreement that does not bear interest currently or bears interest at a rate that is below market rates at the effective date;

## Table of Contents

- the price at which the funding agreement will be issued, which will be expressed as a percentage of the aggregate deposit amount or face amount;
- the effective date on which the funding agreement will be issued;
- the stated maturity date;
- if the funding agreement is a fixed rate funding agreement, the rate per annum at which the funding agreement will bear any interest and the interest payment date frequency;
- if the funding agreement is a floating rate funding agreement, relevant terms such as:
  - (1) the interest rate basis,
  - (2) the initial interest rate,
  - (3) the interest reset period or the interest reset dates,
  - (4) the interest payment dates,
  - (5) the index maturity,
  - (6) any maximum interest rate,
  - (7) any minimum interest rate,
  - (8) the spread and/or spread multiplier, and
  - (9) any other terms relating to the particular method of calculating the interest rate for the funding agreement and whether and how the spread and/or spread multiplier may be changed prior to stated maturity;
- if the funding agreement is an amortizing funding agreement, the terms for repayment prior to the stated maturity;
- whether the funding agreement may be redeemed by us, or repaid at the option of the trust, prior to the stated maturity and the terms of its redemption or repayment; provided in either case the relevant series of notes will contain substantially the same redemption and repayment terms and no funding agreement may be redeemed or repaid without the simultaneous redemption or repayment of the related series of notes; and
- any other terms of the funding agreement.

For a more detailed discussion of the funding agreements, see “Description of the Funding Agreements” in the accompanying prospectus.

### **MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general discussion of the material United States federal income tax considerations relating to the purchase, ownership and disposition of the notes by initial purchasers of the notes who purchase the notes at their issue price (determined as set forth below) and hold the notes as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). The statements set forth in the following discussion, to the extent they constitute matters of United States federal income tax law or legal conclusions with respect thereto, represent the opinion of Sidley Austin Brown & Wood LLP, special United States income tax counsel to us. This discussion does not address all of the tax considerations that may be relevant to prospective purchasers in light of their particular circumstances or to persons subject to special rules under United States federal tax laws, such as certain financial institutions, insurance companies, dealers in securities, tax-exempt entities, certain former citizens or residents of the United States, persons who hold the notes as part of a “straddle,” “hedging,” “conversion” or other integrated transaction, persons who mark their securities to market for United States federal income tax purposes or persons whose functional currency is not the U.S. dollar. In addition, this

## Table of Contents

discussion does not address the effect of any state, local or foreign tax laws. Accordingly, prospective purchasers are advised to consult their own tax advisers with respect to their individual circumstances.

This discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Except where indicated, this discussion does not describe the tax consequences of holding a note that is treated as a “variable rate debt instrument” or a “contingent payment debt instrument” under applicable Treasury Regulations, and a general summary of any materially different federal income tax considerations relating to any such note will be included in the relevant pricing supplement.

For purposes of the following discussion, the term “U.S. Holder” means a beneficial owner of a note who or which is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof or (iii) an estate or trust treated as a United States person under section 7701(a)(30) of the Code. The term “Non-U.S. Holder” means a beneficial owner of a note other than a U.S. Holder. For the purposes of this discussion, U.S. Holders and Non-U.S. Holders shall be referred to collectively as “holders.”

### **Classification of the Notes and the Trust**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as our indebtedness (the “Intended Tax Characterization”). Each holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest), agrees to treat the trust with respect to which the note was issued and the note consistently with the Intended Tax Characterization.

Notwithstanding the Intended Tax Characterization, it is possible that a trust could be viewed as a separate entity for United States federal income tax purposes. Sidley Austin Brown & Wood LLP is of the opinion that, under current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in such opinion, each trust will not be classified as an association (or publicly traded partnership) taxable as a corporation for United States federal income tax purposes. Accordingly, whether the Intended Tax Characterization is respected or not, each trust will not be treated as a taxable entity for United States federal income tax purposes. If a trust is viewed as a separate entity rather than disregarded, each holder of a note (or any beneficial interest therein) agrees to treat the trust as a grantor trust and the notes as undivided ownership interests in such trust. If this were the case, a U.S. Holder would be required to include in income, consistent with its method of accounting, its pro rata share of any amounts paid to the relevant trust to satisfy expenses and would be entitled to deduct, consistent with its method of accounting, its pro rata share of any such expenses as provided in sections 162 and 212 of the Code. If the U.S. Holder is an individual, trust or estate, or to the extent the U.S. Holder’s income is reportable on the income tax return of an individual, trust or estate, the deduction for such person’s share of such expenses will be allowed only to the extent that all of such person’s miscellaneous itemized deductions, including such person’s share of the relevant trust’s expenses, exceed two percent of such person’s adjusted gross income. In addition, an individual’s itemized deductions may be subject to other limitations. Accordingly, U.S. Holders who are individuals, or whose income is reported in whole or in part on the income tax return of a United States citizen or resident, should consult their tax advisers with respect to such deductions.

The remainder of this summary assumes that the Intended Tax Characterization is correct.

## U.S. Holders

### *Interest and Original Issue Discount*

Each U.S. Holder of a note will include in income payments of “qualified stated interest” (as described below) in respect of such note, in accordance with such U.S. Holder’s method of accounting for United States federal income tax purposes, as ordinary interest income. In general, if the issue price of a note, determined by the first price at which a substantial amount of the notes of the related series are sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), is less than the “stated redemption price at maturity” (as described below) of such note by an amount equal to or more than a *de minimis* amount, a U.S. Holder will be considered to have purchased such note with original issue discount (“OID”). In general, the *de minimis* amount is equal to 1/4 of one percent of the stated redemption price at maturity multiplied by the weighted average number of complete years to maturity from the issue date of such note. If a U.S. Holder acquires a note with OID, then regardless of such U.S. Holder’s method of accounting, such U.S. Holder will be required to accrue its pro rata share of OID on such note on a constant-yield basis and include such accruals in gross income, whether or not such U.S. Holder has received any cash payment on the notes. Any amount not treated as OID because it is *de minimis* generally must be included in income (generally as gain from the sale of notes) as principal payments are received in the proportion that each such payment bears to the original principal amount of the note.

“Stated redemption price at maturity” means the sum of all payments to be made on a note other than payments of “qualified stated interest.” “Qualified stated interest” generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, in the case of a variable rate debt instrument, at a rate or combination of rates meeting certain specified criteria.

### *Premiums*

If the amount paid by a U.S. Holder for a note exceeds the stated redemption price at maturity of the note, the U.S. Holder generally will be considered to have purchased the note at a premium equal in amount to such excess. In this event, the U.S. Holder may elect to amortize such premium, generally on a constant-yield basis, as an offset to interest income. In the case of a note that may be redeemed prior to maturity, the premium is calculated assuming the trust and the U.S. Holder will exercise or not exercise redemption rights in a manner that maximizes the U.S. Holder’s yield. It is unclear how premium is calculated when the redemption date or the amount of any redemption premium is uncertain. The election to amortize bond premium, once made, will apply to all debt obligations held or subsequently acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service (“IRS”).

### *Short-Term Notes*

Notes that have a fixed maturity of one year or less (“Short-Term Notes”) will be treated as issued with OID. In general, an individual or other U.S. Holder that uses the cash method of accounting is not required to accrue such OID unless the U.S. Holder elects to do so. If such an election is not made, any gain recognized by such U.S. Holder on the sale, exchange, retirement or other disposition of Short-Term Notes will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such U.S. Holder for interest on borrowings allocable to Short-Term Notes will be deferred until a corresponding amount of income is realized. U.S. Holders who report income for United States federal income tax purposes under the accrual method of accounting and certain other holders are required to accrue OID related to a Short-Term Note as ordinary income on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding).



### ***Sale, Exchange, Retirement or Other Disposition of Notes***

In general, a U.S. Holder of a note will have a tax basis in the note equal to the cost of the note to the U.S. Holder, increased by any amount includible in income by the U.S. Holder as OID and reduced by any amortized premium and any payments other than payments of qualified stated interest. Upon a sale, exchange, retirement or other disposition of a note, a U.S. Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any amount realized that is attributable to accrued but unpaid qualified stated interest, which will constitute ordinary income if not previously included in income) and the U.S. Holder's tax basis in such note. Subject to the rules described below under "Foreign Currency Notes," such gain or loss will be long-term capital gain or loss if the U.S. Holder held the note for more than one year at the time of disposition. A U.S. Holder that is an individual is entitled to preferential treatment for net long-term capital gains; however, the ability of a U.S. Holder to offset capital losses against ordinary income is limited.

### ***Foreign Currency Notes***

The following discussion generally describes special rules that apply, in addition to the rules described above, to notes that are denominated in, or provide for payments determined by reference to, a currency or currency unit other than the U.S. dollar ("Foreign Currency Notes"). The amount of qualified stated interest paid with respect to a Foreign Currency Note that is includible in income by a U.S. Holder that uses the cash method of accounting for United States federal income tax purposes is the U.S. dollar value of the amount paid, as determined on the date of actual or constructive receipt by such U.S. Holder, using the spot rate of exchange on such date. In the case of qualified stated interest paid to a U.S. Holder that uses the accrual method of accounting, and in the case of OID (other than OID from a Short-Term Note that is not required to be accrued) for every U.S. Holder, such U.S. Holder is required to include the U.S. dollar value of the amount of such interest income or OID that accrued during the accrual period. The U.S. dollar value of such accrued interest income or OID is generally determined by translating such income at the average rate of exchange for the accrual period or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period. The U.S. Holder will recognize, as ordinary income or loss, foreign currency exchange gain or loss with respect to such accrued interest income or OID on the date the interest or OID is actually or constructively received, reflecting fluctuations in currency exchange rates between the exchange rate used to determine the accrued interest income or OID for the relevant accrual period and the exchange rate on the date such interest or OID is actually or constructively received.

The amount realized with respect to a sale, exchange, retirement or other disposition of a Foreign Currency Note generally will be the U.S. dollar value of the payment received, determined on the date of disposition of such note (using the spot rate on such date). Gain or loss that is recognized will be ordinary income or loss to the extent it is attributable to fluctuations in currency rates between the date of purchase and the date of sale, exchange, retirement or other disposition. Such foreign currency gain (or loss) will be recognized only to the extent of the total gain (or loss) realized by the U.S. Holder on the sale, exchange, retirement or other disposition of the Foreign Currency Note. Any gain (or loss) realized by a U.S. Holder in excess of such foreign currency gain (or loss) generally will be capital gain or loss.

### **Non-U.S. Holders**

Subject to the discussion below concerning backup withholding, the following is a discussion of United States federal income tax considerations generally applicable to Non-U.S. Holders:

- (a) payments of principal and interest (including OID) with respect to a note held by or for a Non-U.S. Holder will not be subject to withholding of United States federal income tax, provided that, in the case of interest, (i) such interest is not received by a bank on an extension of credit made pursuant to a loan agreement entered in the ordinary course of its trade or business, (ii) such Non-U.S. Holder does not own, actually or constructively, 10% or more of the

## Table of Contents

total combined voting power of all of our classes of stock entitled to vote, (iii) such Non-U.S. Holder is not a controlled foreign corporation, within the meaning of section 957(a) of the Code, that is related, directly or indirectly, to us through stock ownership, (iv) such interest is not contingent interest described in section 871(h)(4)(A) of the Code and (v) the statement requirement set forth in section 871(h) or section 881(c) of the Code (described below) has been fulfilled with respect to such Non-U.S. Holder; and

(b) a Non-U.S. Holder will generally not be subject to United States federal income tax on gain realized on the sale, exchange, retirement or other disposition of a note, unless (i) such Non-U.S. Holder is an individual who is present in the United States, for 183 days or more in the taxable year of such sale, exchange, retirement or other disposition and certain other conditions are met or (ii) such gain is effectively connected with the conduct, by such Non-U.S. Holder, of a trade or business in the United States.

Sections 871(h) and 881(c) of the Code require that, in order to obtain the exemption from withholding of United States federal income tax described in paragraph (a) above, either the Non-U.S. Holder or a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business (a "Financial Institution") and that is holding the note on behalf of such Non-U.S. Holder must file a statement with the withholding agent to the effect that the Non-U.S. Holder is not a United States person. Such requirement will be fulfilled if the Non-U.S. Holder certifies on IRS Form W-8BEN (or successor form), under penalties of perjury, that it is not a United States person and provides its name and address, or any Financial Institution holding the note on behalf of the Non-U.S. Holder files a statement with the withholding agent to the effect that it has received such a statement from the Non-U.S. Holder (and furnishes the withholding agent with a copy thereof). In addition, in the case of notes held by a foreign intermediary (other than a "qualified intermediary") or a foreign partnership (other than a "withholding foreign partnership"), the foreign intermediary or partnership, as the case may be, generally must provide a properly executed IRS Form W-8IMY (or successor form) and attach thereto an appropriate certification by each foreign beneficial owner or United States payee.

If a Non-U.S. Holder is engaged in a trade or business in the United States, and if amounts treated as interest for United States federal income tax purposes on a note or gain realized on the sale, exchange, retirement or other disposition of a note is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding of federal income tax described in paragraph (a) above, will generally be subject to regular United States federal income tax on such effectively connected income in the same manner as if it were a U.S. Holder. In lieu of the certificate described in the preceding paragraph, such Non-U.S. Holder will be required to provide a properly executed IRS Form W-8ECI (or successor form) to the withholding agent in order to claim an exemption from withholding tax. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

### **Backup Withholding and Information Reporting**

Backup withholding and information reporting requirements generally apply to interest (including OID) and principal payments made to, and to the proceeds of sales by, certain non-corporate U.S. Holders. A U.S. Holder not otherwise exempt from backup withholding generally can avoid backup withholding by providing a properly-executed IRS Form W-9 (or successor form). In the case of a Non-U.S. Holder, backup withholding and information reporting will not apply to payments on, or from the sale, exchange, retirement or other disposition of, a note if a statement referred to in clause (a)(v) of the first paragraph in "Non-U.S. Holders" above has been received and the payor does not have actual knowledge that the beneficial owner is a United States person. Withholding agents must nevertheless report to the IRS and to each Non-U.S. Holder the amount of interest (including OID) paid with respect to the notes held by each Non-U.S. Holder and the rate of withholding (if any) applicable to each Non-U.S. Holder. Non-U.S. Holders should consult their own tax advisers regarding the application of

## Table of Contents

information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the beneficial owner's United States federal income tax liability provided the required information is furnished to the IRS.

### **Opinion Regarding Tax Matters**

Prior to the issuance of any notes, we will file with a Current Report on Form 8-K an unqualified opinion of legal counsel regarding the tax treatment of such notes.

### **PLAN OF DISTRIBUTION**

This prospectus supplement relates to the offering of notes by separate trusts from time to time for sale to or through Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Incorporated, Citigroup Global Markets Inc., Credit Suisse First Boston LLC, Lehman Brothers Inc., Morgan Stanley & Co. Incorporated and UBS Securities LLC (the "Agents") pursuant to a distribution agreement (the "Distribution Agreement") among the applicable trust, us, PFG and the Agents. The Agents, individually or in a syndicate, may purchase notes, as principal, from separate trusts from time to time for resale to investors and other purchasers at varying prices relating to prevailing market prices at the time of resale as determined by the applicable Agent or, if so specified in the applicable pricing supplement, for resale at a fixed offering price. However, the applicable trust may agree with an Agent for that Agent to utilize its reasonable efforts on an agency basis on its behalf to solicit offers to purchase notes at 100% of the principal amount thereof, unless otherwise specified in the applicable pricing supplement. In all such cases, a single trust may only issue notes of a single series on the initial date of sale of such notes. No additional notes may thereafter be issued by that trust. Unless otherwise specified in the applicable pricing supplement, the applicable trust will pay a commission to an Agent, ranging from .150% to .875% of the principal amount of each note, depending upon its stated maturity, sold through that Agent as its agent. The notes may be sold to United States and foreign institutional and other investors.

Subject to the terms of the Distribution Agreement, concurrently with any offering of notes as described in this prospectus supplement by the applicable trust, a separate trust may issue other notes under our Principal® Life CoreNotes® program primarily to retail investors or the accompanying prospectus or this prospectus supplement.

Unless otherwise specified in the applicable pricing supplement, any note sold to an Agent as principal will be purchased by that Agent at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. An Agent may sell notes it has purchased from the applicable trust as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with that purchase. An Agent may allow, and dealers may reallow, a discount to certain other dealers. After the initial offering of notes (in the case of notes to be sold on a fixed offering price basis), the concession and the reallowance may be changed.

The applicable trust reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject offers in whole or in part. Each Agent will have the right, in its discretion reasonably exercised, to reject in whole or in part any offer to purchase notes received by it on an agency basis.

Unless otherwise specified in the applicable pricing supplement, you will be required to pay the purchase price of your notes in immediately available funds in the specified currency in The City of New York on the date of settlement.

Upon issuance, the notes will not have an established trading market. The notes may not be listed on any securities exchange. The Agents may from time to time purchase and sell notes in the secondary market, but the Agents are not obligated to do so. There can be no assurance that a secondary market for the notes will develop or that there will be liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the notes, but the Agents are not obligated to do so and may discontinue any market-making activity at any time.

## Table of Contents

In connection with an offering of notes purchased by one or more Agents as principal on a fixed offering price basis, the applicable Agents will be permitted to engage in certain transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If those Agents create a short position in notes (i.e., if they sell notes in an amount exceeding the amount referred to in the applicable pricing supplement), they may reduce that short position by purchasing notes in the open market. In general, purchases of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of these type of purchases.

None of us, PFG, the applicable trust or any Agent makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, none of us, PFG, the applicable trust or any Agent makes any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Agents are “underwriters” within the meaning of the Securities Act of 1933, as amended, with respect to the notes being distributed, the funding agreement purchased by the trust and the guarantee issued to the trust. We and PFG have agreed, jointly and severally, to indemnify the Agents against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Agents may be required to make in respect thereof.

We are a statutory issuer of the notes under the Securities Act of 1933, as amended.

In the ordinary course of business, the Agents and their affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us and certain of our affiliates, including PFG.

**\$4,000,000,000**

**PRINCIPAL LIFE INSURANCE COMPANY**

**Secured Medium-Term Notes**

**Due Between Nine Months  
and Thirty Years From  
the Date of Issue  
Issued Through  
Principal Life Income Fundings Trusts**

---

**PROSPECTUS SUPPLEMENT**

---

**Merrill Lynch & Co.**

**ABN AMRO Incorporated  
Citigroup  
Credit Suisse First Boston  
Lehman Brothers  
Morgan Stanley  
UBS Investment Bank**

**March , 2004**

---

---

---

The information in this prospectus supplement is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or would require registration or qualification under the securities laws of the jurisdiction.

**SUBJECT TO COMPLETION, DATED March 3, 2004**

**PROSPECTUS SUPPLEMENT**

(To prospectus dated March , 2004)

**\$4,000,000,000**



**Principal Life Insurance Company**

**Principal® Life CoreNotes®  
Due Between Nine Months and Thirty Years From the Date of Issue  
Issued Through  
Principal Life Income Fundings Trusts**

**Principal Life:** We are Principal Life Insurance Company, an Iowa insurance company, and the depositor of the funding agreements described below. This prospectus supplement relates to the offering, from time to time, through newly established separate and distinct trusts described below, of one or more series of Principal® Life CoreNotes®, which we refer to in this prospectus supplement as “notes,” in an aggregate principal amount of up to \$4,000,000,000, less any principal amount of notes previously issued under this program, the secured medium-term notes program issued primarily to institutional investors or otherwise under the accompanying prospectus.

The applicable trust will use the net proceeds from the offering of its series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust, by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent (“PFG”).

Each trust exists for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, and engaging in other activities necessary or incidental thereto.

You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest.

**The notes:** The specific terms and conditions of each series of notes will be as set forth in a separate pricing supplement. The notes of each series will:

- be issued by a separate and distinct trust;
- provide for payment in U.S. dollars;
- rank as secured indebtedness of the trust secured primarily by a funding agreement issued by us;
- unless otherwise specified in the applicable pricing supplement, not be listed on any securities exchange;
- unless otherwise specified in the applicable pricing supplement, have a minimum denomination of \$1,000 and integral multiples in excess thereof;
- be in book-entry form;
- represent non-recourse obligations of the trust and will be paid only from the assets of that trust;
- be the trust’s obligations only and will not be obligations of, or guaranteed by, us, PFG or any of our or its affiliates;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement);
- have a stated maturity of between 9 months and 30 years from the date of issue;
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of notes; and
- may be sold in the United States to retail investors.

Holders of a series of notes may look only to the trust's rights and title in the funding agreement issued to, and deposited into, the applicable trust by us, the related guarantee issued by PFG and any proceeds of that funding agreement and guarantee held in the trust and not to any other assets or collateral held by any other trust, us or PFG.

**Investing in the notes involves risks that are described in the "Risk Factors" section beginning on page 2 of the accompanying prospectus.**

**None of the Securities and Exchange Commission (the "SEC"), any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus supplement, the accompanying prospectus or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

The trusts may sell notes to the purchasing agent referred to below as principal for resale at a fixed offering price specified in the applicable pricing supplement or at varying prices. The trusts may also explicitly agree with the purchasing agent that it will use its reasonable efforts as agent on the trust's behalf to solicit offers to purchase notes from such trusts.

---

## **Merrill Lynch & Co.**

---

The date of this prospectus supplement is March , 2004.

"Principal®" and "Principal Financial Group and Design®" are registered service marks of Principal Financial Services, Inc. and are used under license.

"CoreNotes®" is a registered service mark of Merrill Lynch & Co., Inc.

---

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PROSPECTUS SUPPLEMENT</b>	
ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS SUMMARY	S-1
DESCRIPTION OF THE NOTES	S-3
DESCRIPTION OF THE FUNDING AGREEMENTS	S-12
MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS	S-33
PLAN OF DISTRIBUTION	S-34
REPAYMENT ELECTION FORM	S-36
	A-1
<b>PROSPECTUS</b>	
ABOUT THIS PROSPECTUS	1
RISK FACTORS	2
FORWARD LOOKING INFORMATION	11
WHERE YOU CAN FIND MORE INFORMATION	12
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	12
USE OF PROCEEDS	13
RATIO OF EARNINGS TO FIXED CHARGES	13
PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.	14
DESCRIPTION OF THE TRUSTS	16
DESCRIPTION OF THE NOTES	20
DESCRIPTION OF THE FUNDING AGREEMENTS	32
DESCRIPTION OF THE GUARANTEES	37
DESCRIPTION OF THE EXPENSE AND INDEMNITY AGREEMENTS	38
ERISA CONSIDERATIONS	39
PLAN OF DISTRIBUTION	41
LEGAL MATTERS	42
EXPERTS	42

**ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PRICING SUPPLEMENTS**

This document is a prospectus supplement and supplements a prospectus which is part of the registration statement that we and PFG have filed with the SEC. This prospectus supplement provides you with a general description of the notes being offered, through newly established separate and distinct trusts, and supplements the description of the notes contained in the accompanying prospectus. These notes may be offered from time to time, through trusts, in one or more series of notes with a total initial public offering price or purchase price of up to \$4,000,000,000 less any amount of notes previously issued under this program, pursuant to a separate prospectus supplement that relates to our secured medium-term notes program issued primarily to institutional investors or otherwise under the accompanying prospectus.

The specific terms and conditions of notes being offered will be contained in a pricing supplement. A copy of that pricing supplement will be provided to you along with a copy of this prospectus supplement and the accompanying prospectus. That pricing supplement also may add, update, supplement or clarify information in this prospectus supplement and the accompanying prospectus. You should carefully review such additional, updated, supplemental or clarifying information contained in the pricing supplement. You should read this prospectus supplement and the accompanying prospectus and the pricing supplement



## [Table of Contents](#)

together with the additional information that is incorporated by reference in this prospectus supplement and the accompanying prospectus. That additional information is described under the heading “Incorporation of Certain Documents by Reference” beginning on page 12 of the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement. None of us, PFG, any trust or the purchasing agent has authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. None of us, PFG, any trust or the purchasing agent is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of its respective date. The business, financial condition, results of operations and prospects of us and PFG may have changed since that date.

In this prospectus supplement, references to “Principal Life,” “we,” “us” and “our” are to Principal Life Insurance Company, an Iowa life insurance company, references to “PFG” are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to “trust” are to the applicable newly established separate and distinct special purpose common law trust, formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement, which actually issues the applicable series of notes. In this prospectus supplement, we refer to each series of Principal® Life CoreNotes® as a “series of notes” and to Principal® Life CoreNotes® in general as “notes.”

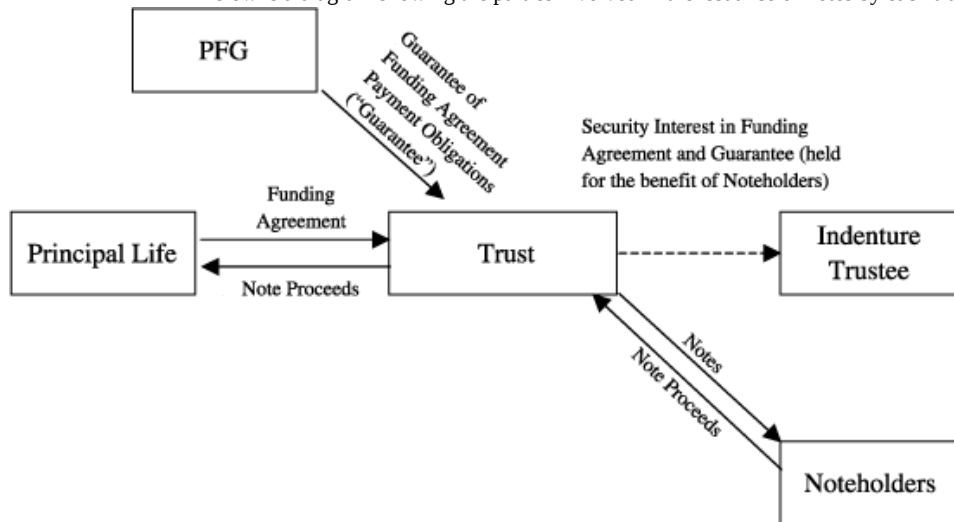
In this prospectus supplement, references to “United States dollars,” “U.S. dollars” or “\$” are to lawful currency of the United States of America.

## SUMMARY

*This section summarizes the material legal and financial terms of the notes that are described in more detail in “Description of the Notes” beginning on page S-12. Final terms of any particular series of notes are set at the time of sale and will be contained in a pricing supplement relating to that series of notes. That pricing supplement may add to, update, supplement or clarify the terms contained in this summary. In addition, you should read the more detailed information appearing elsewhere in the accompanying prospectus, this prospectus supplement and the applicable pricing supplement.*

The Trusts	Each series of notes will be issued by a newly established and separately created common law trust. Each trust will be established by GSS Holdings II, Inc., as trust beneficial owner, and U.S. Bank Trust National Association, as trustee, pursuant to a trust agreement (each, a “trust agreement”). The assets and liabilities of each trust are separate and distinct from the assets and liabilities of every other trust, us and PFG.
The Depositor	We are a registrant as the depositor and issuer of the funding agreements under the program.
The Guarantor	PFG is a registrant as the issuer of the guarantees that will fully and unconditionally guarantee our payment obligations under the funding agreements.
Purpose of Trusts	<p>The sole purpose of the trusts is to facilitate a program for the issuance, from time to time, of one or more series of notes to the public. Each trust may only issue one series of notes and such notes will be issued only on the original issue date for such notes. Each series of notes will be secured by only one funding agreement purchased from us by the applicable trust, the principal amount of which may not be increased. Our payment obligations under each funding agreement will be fully and unconditionally guaranteed by PFG. The trust will use the net proceeds received from issuing a series of notes to acquire a funding agreement, for, and to be held in, the trust. The trust will hold the collateral described below pertaining to the applicable series of notes to fund its obligations under that series of notes. Notes issued by the trust will be the direct obligations of the trust and will not be the obligation of any other trust, us or PFG. Holders of notes of a particular series may only look to the funding agreement issued by us, the related guarantee issued by PFG and any proceeds of such funding agreement and guarantee held in the related trust for payment on their notes and not to the assets held in any other trust or by us or PFG.</p> <p>We and PFG are not affiliated with any trust.</p>

Below is a diagram showing the parties involved in the issuance of notes by each trust.



**We Can Issue Medium-Term Notes and Funding Agreements Directly to Investors**

We are able to issue our own medium-term notes directly to investors and do issue funding agreements directly to investors. However, by securing each trust’s notes with a funding agreement, such trust’s notes are secured by an asset that would have a higher priority in insolvency than our unsecured medium-term notes, if any, and may be entitled to receive a higher investment rating from one or more nationally recognized rating agencies than our unsecured medium-term notes. In addition, funding agreements are very difficult to transfer and have no active secondary market. By securing each trust’s notes with a funding agreement, investors may be able to avail themselves of many of the benefits of our funding agreements while benefiting from the liquidity afforded by each trust’s medium-term notes.

**Purchasing Agent**

Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**Principal® Life CoreNotes®**

This prospectus supplement relates to notes that one or more trusts may issue and sell in the United States to retail and other investors under our Principal® Life CoreNotes® program.

**Secured Medium-Term Notes Program**

Included in the registration statement, of which this prospectus supplement is a part, is another prospectus supplement relating to notes that may be issued and sold to institutional investors by newly established trusts under the related secured medium-term notes program. The terms of the secured medium-term notes are identical in all material respects to the terms of the notes to be sold under this Principal® Life

[Table of Contents](#)

CoreNotes® program, as described in this prospectus supplement, except that the secured medium-term notes:

- may be issued as amortizing notes;
- may be denominated in one or more foreign currencies;
- will not contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes; and
- may contain a provision providing for the redemption of the notes if we are required to pay additional amounts on the related funding agreement pursuant to the applicable pricing supplement and we exercise our right to redeem the funding agreement.

Amount

The trusts may collectively issue up to a maximum aggregate principal amount of \$4,000,000,000 of notes in connection with this prospectus supplement, less any principal amount of notes previously issued under this program, our secured medium-term notes program or otherwise under the accompanying prospectus.

Terms of the Notes:  
Status

- Each series of notes will be the unconditional, direct, non-recourse, secured and unsubordinated obligations of the applicable trust. Each series of notes will be secured by the collateral relating to that series of notes.
- Each series of notes may be accelerated in the payment of principal and outstanding interest if an event of default under the notes occurs. Upon the occurrence of an event of default, the indenture trustee (described below), on behalf of the holders of notes, may only proceed against the collateral held in the related trust.
- The notes of each series are not, and will not be, obligations of, or guaranteed by, us or any other insurance company or any affiliate of ours, including PFG. The notes will not benefit from any insurance guarantee fund coverage or any similar protection.

Principal

The principal amount of each series of notes will be payable on its stated maturity date, as specified in the applicable pricing supplement, at the corporate trust office of the paying agent or any other place the relevant trust designates.

Interest

Notes of a series may bear interest at a fixed interest rate or a floating interest rate, or bear no interest at all. Each series of notes that bears interest at a fixed interest rate ("fixed rate

notes”) will bear interest from the date of original issuance at a fixed rate per year, as specified in the applicable pricing supplement, until the principal is paid. Interest, if any, will be payable monthly, quarterly, semi-annually or annually on each interest payment date and on the maturity date, as specified in the applicable pricing supplement. Interest also will be paid on the date of redemption or repayment if a series of notes is redeemed or repaid prior to maturity. Interest will be computed on the basis of a 360-day year of twelve 30-day months, unless otherwise specified in the applicable pricing supplement.

Each series of notes that bears interest at a floating interest rate (“floating rate notes”) will bear interest from the date of original issuance at a rate determined by reference to a base rate, which may be adjusted by a spread and/or spread multiplier, as specified in the applicable pricing supplement, until the principal is paid. The pricing supplement will designate one or more of the following interest rate bases, along with the index maturity for that interest rate basis:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- LIBOR;
- the Prime Rate;
- the Treasury Rate; or
- such other interest rate basis or interest rate formula as set forth in such pricing supplement.

*Payment of Principal and Interest*

Principal and interest payments, if any, on any series of notes will be made solely from the proceeds of a funding agreement purchased with respect to such series of notes for, and to be held in, the related trust, and the full and unconditional guarantee issued by PFG of our payment obligations under the relevant funding agreement.

*Maturities*

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature nine months or more from its date of original issuance on the last scheduled interest payment date, as specified in the applicable pricing supplement. Each series of notes will mature on or prior to 30 years from its date of original issuance.

*Redemption and Repayment*

A trust will redeem its series of notes if we redeem the funding agreement securing such series of notes. Except as otherwise specified in the accompanying prospectus, this prospectus supplement or the applicable pricing supplement, the funding agreement securing a series of notes will not be redeemable by us and no series of notes will be repayable at the option of the holder prior to their stated maturity date.

Unless otherwise specified in the applicable pricing supplement, the notes will not be subject to any sinking fund.

*Survivor's Option*

A series of notes may contain a provision (which we refer to as the “survivor’s option”) permitting optional repayment of notes of that series prior to maturity, if requested, following the death of the beneficial owner of notes of that series, so long as the notes were held by the beneficial owner for a period of six (6) months immediately prior to such death . Your notes may not be repaid in this manner unless the pricing supplement for your series of notes provides for the survivor’s option. If the pricing supplement for your series of notes provides for the survivor’s option, the funding agreement securing your series of notes will contain a provision which will allow the applicable trust to tender the funding agreement in whole or in part to us. The ability of the applicable trust to tender the funding agreement related to a series of notes that contain a survivor’s option, however, will be subject to certain limitations set by us. As a result, your right to exercise the survivor’s option is subject to limits set by us with respect to the relevant funding agreement. We have the discretionary right to limit:

- the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;

- the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor’s option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and

- the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as

## Table of Contents

set forth in the applicable funding agreement and the applicable pricing supplement.

Additional details on the survivor's option are described in this prospectus supplement in the section entitled "Description of the Notes — Repayment Upon Exercise of Survivor's Option" on page S-27.

Denominations; Currency	Unless otherwise specified in the applicable pricing supplement, the notes will be issued and sold in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, and any other amounts in respect of the notes, will be made in U.S. dollars.
Listing	Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.
Form of Notes	The trusts will sell notes in the United States only. Each series of notes will be issued in book-entry form only and cleared through The Depository Trust Company ("DTC" or the "depository"). Each book-entry note will be held by the indenture trustee as custodian for DTC or its nominee. We do not intend to issue notes in certificated form.
Collateral	<p>The notes of any series will be secured by the right, title and interest of the trust in and to (1) the relevant funding agreement held in that trust, (2) the related guarantee issued by PFG to the trust fully and unconditionally guaranteeing our payment obligations under the funding agreement, (3) all proceeds of the funding agreement and the guarantee and all amounts and instruments on deposit from time to time in the related collection account, (4) all books and records pertaining to the relevant funding agreement and the related guarantee and (5) all rights of the trust pertaining to the foregoing.</p> <p>Each series of notes will be secured by the collateral held in the applicable trust. The trust will collaterally assign and grant a security interest in the related funding agreement and the related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.</p> <p>Under the custodial agreement (the "custodial agreement") entered into among the indenture trustee, Bankers Trust Company, N.A. (the "custodian") and the trustee (on behalf of each trust to be formed in connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.</p>
Funding Agreements	A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives

scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

Each trust will use the net proceeds received from the sale of its series of notes to purchase a funding agreement issued by us, the terms of which will be set forth in the applicable pricing supplement. The funding agreement will have a deposit amount equal to the sum of the principal amount (or issue price in the case of discount notes) of the related series of notes and the amount of the beneficial interest in the related trust. The rate at which the funding agreement bears interest will be equal to the rate of interest, if any, on the related series of notes. The funding agreement will otherwise have substantially similar payment and other terms to the related series of notes.

Each funding agreement is our unsecured obligation. See “— Ratings” below.

In the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2



## Table of Contents

priority is given to the claims of the insurer's policyholders and guaranty associations. We believe that, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders. See "Description of the Funding Agreements" in the accompanying prospectus.

Guarantees	Our payment obligations under the funding agreement issued to each trust will be fully and unconditionally guaranteed by PFG under a guarantee issued by PFG to the trust as described in the accompanying prospectus. Each guarantee will be an unsecured, unsubordinated, contingent obligation of PFG. See "Description of the Guarantees" in the accompanying prospectus.
Ratings	Unless otherwise indicated in the applicable pricing supplement, the notes will have an issue credit rating of AA from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"). Standard & Poor's has rated the program AA. If Standard & Poor's changes the program rating, the new program rating will be specified in the applicable pricing supplement. We expect the program to be rated Aa3 by Moody's Investors Service, Inc. ("Moody's"). If Moody's changes the program rating, the new program rating will be specified in the applicable pricing supplement. Notes of a series will be issued under the program only in the event that, at the time of issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.
Indenture and Indenture Trustee	Each trust will issue its series of notes to the public pursuant to an indenture between that trust and Citibank, N.A., in its capacity as indenture trustee. The indenture is subject to the Trust Indenture Act of 1939, as amended. The indenture trustee is not affiliated with any trust, us or PFG.
Administration of the Trusts	<p>U.S. Bank Trust National Association, a national banking association, will be each trust's sole trustee (the "trustee"). The trustee will not be obligated in any way to make payments under or in respect of the notes. The trustee is not affiliated with us or PFG.</p> <p>We have entered into an expense and indemnity agreement with each of the indenture trustee, the custodian, the trust beneficial owner, and the trustee (on behalf of itself and each trust formed in connection with the issuance of a series of notes). We will enter into an expense and indemnity agreement with additional service providers appointed from time to time. Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and servicing of any series of notes and certain</p>

## Table of Contents

costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers appointed from time to time with respect to certain matters.

### Trust Beneficial Owner

GSS Holdings II, Inc., a Delaware corporation, will be the sole beneficial owner of each trust (the “trust beneficial owner”). The beneficial interest of each trust:

- will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes), unless otherwise specified in the pricing supplement;
- will be issued in book-entry form only;
- will entitle the trust beneficial owner to receive payments in respect thereof on the same terms as the payments to be made to the holders of notes of the related series; and
- will be subordinated to the related series of notes.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series receive interest payments. On the maturity date of the trust beneficial owner’s beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes to the holders of such notes and the principal amount of the beneficial interest to the trust beneficial owner.

The trust beneficial owner is not affiliated with us or PFG.

### Governing Law

The notes and each indenture will be governed by, and construed in accordance with, the laws of the State of New York. Each guarantee issued by PFG will be governed by, and construed in accordance with, the laws of the State of New York. The trust agreement for the applicable trust will be governed by, and construed in accordance with, the laws of the jurisdiction in which it is formed. Each funding agreement will be governed by the laws of the State of Iowa.

## DESCRIPTION OF THE NOTES

The following description of the material provisions of the notes supplements the general description of the notes provided in the accompanying prospectus. You should therefore review the accompanying prospectus carefully. You should carefully review the information in this prospectus supplement. The pricing supplement for each offering of notes will contain the specific information and terms and conditions for that offering. As such, you should carefully review the information contained in the pricing supplement, including any description of the method of calculating interest on any note. The pricing supplement may also add, update, supplement or clarify information contained in this prospectus supplement or the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus, this prospectus supplement, the applicable pricing supplement, the indenture and the notes in making your investment decision.

This section describes some technical concepts and uses some capitalized terms that are not defined in the prospectus supplement. You should refer to the form of indenture and the form of note certificates filed as exhibits to the registration statement (of which this prospectus supplement and the accompanying prospectus are a part) for the full description of those concepts and complete definitions of these terms.

### General

#### *Indenture*

Each trust will issue one series of notes, subject to and entitled to the benefits of a separate indenture between the trust and the indenture trustee, which will adopt and incorporate the standard indenture terms. Such notes will be issued only on the original issue date for such notes. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the “indenture.” Each series of notes will be the subject of a pricing supplement. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. For a description of the terms of the indenture, see “Descriptions of the Notes” beginning on page 20 of the accompanying prospectus.

At the date of this prospectus supplement, the notes offered pursuant to this prospectus supplement are limited to an aggregate initial public offering price or purchase price of up to \$4,000,000,000. This amount is subject to reduction as a result of the issuance of notes of notes previously under this program, our secured medium-term notes program or otherwise under the accompanying prospectus.

#### *Collateral*

The notes of a series will be the trust’s unconditional, direct, non-recourse, secured and unsubordinated obligations. Under the indenture, the funding agreement issued to and deposited into a trust by us, in exchange for the proceeds from the offering of its series of notes and trust beneficial interest, will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. A trust may purchase only one funding agreement from us and the principal amount of the funding agreement may not be increased. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Each series of notes will be secured by a security interest in the “collateral,” consisting of:

- the relevant funding agreement;
- the related guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;
- all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;
- all books and records pertaining to the relevant funding agreement and the related guarantee; and
- all of the trust’s rights pertaining to the foregoing.

## Table of Contents

Under the custodial agreement, upon the collateral assignment and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

### ***Ranking***

The notes of a series of a trust will rank equally among themselves.

### ***Pricing Options***

Notes that bear interest will either be fixed rate notes or floating rate notes, or a combination of fixed rate and floating rate, as specified in the applicable pricing supplement. A trust may also issue discount notes as specified in the applicable pricing supplement.

### ***Pricing Supplement***

The pricing supplement relating to the offering of a series of notes will describe the following terms:

- the principal amount for the note;
- whether the note:
  - (1) is a fixed rate note,
  - (2) is a floating rate note, and/or
  - (3) is a discount note that does not bear any interest currently or bears interest at a rate that is below market rates at the time of issuance;
- the price at which the note will be issued, which will be expressed as a percentage of the aggregate principal amount or face amount;
- the original issue date on which the note will be issued;
- the stated maturity date;
- if the note is a fixed rate note, the rate per annum at which the note will bear any interest and the Interest Payment Date frequency;
- if the note is a floating rate note, relevant terms such as:
  - (1) the Interest Rate Basis,
  - (2) the Initial Interest Rate,
  - (3) the Interest Reset Period or the Interest Reset Dates,
  - (4) the Interest Payment Dates,
  - (5) the Index Maturity,
  - (6) any Maximum Interest Rate,
  - (7) any Minimum Interest Rate,
  - (8) the spread and/or spread multiplier, and
  - (9) any other terms relating to the particular method of calculating the interest rate for the note and whether and how the spread and/or spread multiplier may be changed prior to the stated maturity date;
- whether the authorized representative of the beneficial owner of a beneficial interest in the note will have the right to seek repayment upon the death of the beneficial owner as described under “— Repayment Upon Exercise of Survivor’s Option” on page S-27;
- whether the note may be redeemed by the trust, or repaid at the option of the holder, prior to the stated maturity date and the terms of its redemption or repayment, provided that any such redemption or repayment will be accompanied by the simultaneous redemption or repayment of the relevant funding agreement;
- any special United States federal income tax considerations relating to the purchase, ownership and disposition of the note;
- the jurisdiction of formation of the trust; and
- any other terms of the note provided in the accompanying prospectus to be set forth in a pricing supplement or that are otherwise



consistent with the provisions of the indenture under which the note will be issued.

### ***Maturity***

Unless otherwise specified in the applicable pricing supplement, each series of notes will mature on a day nine months or more from its date of original issuance on the last scheduled interest payment date (the “stated maturity date”), as specified in the applicable pricing supplement, unless the principal of such series becomes due and payable prior to the stated maturity date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the trust, notice of a beneficial owner’s exercise of his or her option to elect repayment or otherwise (we refer to the stated maturity date or any date prior to the stated maturity date on which the particular series of notes becomes due and payable, as the case may be, as the “maturity date” with respect to the principal of such series of notes repayable on that date). Each series of notes will mature on or prior to 30 years from its date of original issuance.

### ***Currency***

The notes of each series will be denominated in, and payments of principal, premium, if any, and/or interest, if any, and any other amounts in respect of the notes will be made in, U.S. dollars.

### ***Form of Notes; Denominations***

Each trust will issue each note in book-entry form represented by one or more fully registered book-entry securities registered in the name of Cede & Co., the nominee of The Depository Trust Company, as depository. Each book-entry note will be held by the indenture trustee as custodian for the depository. Unless otherwise specified in the applicable pricing supplement, the minimum denominations of each note will be \$1,000 and integral multiples of \$1,000 in excess thereof.

### ***Transfers and Exchanges***

Book-entry notes may be transferred or exchanged only through the depository. See “— Book-Entry Notes.” No service charge will be imposed for any such registration of transfer or exchange of notes, but the trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with such transfer or exchange (other than certain exchanges not involving any transfer).

### ***Listing***

Unless otherwise specified in the applicable pricing supplement, your series of notes will not be listed on any securities exchange.

### ***Business Day***

As used in this prospectus supplement, “business day” means:

- any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York; and
- for purposes of LIBOR determination dates for floating rate notes (as defined below) based on LIBOR (as defined below) the day must also be a London Banking Day, which means a day on which commercial banks are open for business (including dealings in the LIBOR currency (as defined below)) in London.

### **Payments of Principal and Interest**

Principal of and interest on the notes will be paid to owners of a beneficial interest in the notes in accordance with the arrangements then in place between the paying agent and DTC as depository and its participants as described under “— Book-Entry Notes.” Notes of a series may bear interest at a fixed interest rate (“fixed rate notes”) or at a floating interest rate (“floating rate notes”).

### **Fixed Rate Notes**

Each series of fixed rate notes will bear interest at a fixed rate from and including its date of issue or from and including the most recent interest payment date as to which interest has been paid or made available for payment until the

## Table of Contents

principal is paid or made available for payment. The applicable pricing supplement will specify the fixed interest rate per annum applicable to each note and the frequency with which interest is payable. Interest, including interest for any partial period, will be computed on the basis of a 360-day year of twelve 30-day months. Each payment of interest, including interest to be paid at maturity, will include interest to, but excluding, the date that the interest payment is due.

Interest on notes that bear interest at fixed rates will be payable in arrears on each interest payment date to the registered holder at the close of business on the record date except that interest, if any, due at maturity will be paid to the person to whom the principal of the note is paid. Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing supplement, the interest payment dates for fixed rate notes will be as follows:

<u>Interest Payment Frequency</u>	<u>Interest Payment Dates</u>
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month the note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month the note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month the note was issued.

If any interest payment date or the maturity date of a fixed rate note falls on a day that is not a business day, the applicable trust will make the required payment of principal, premium, if any, and/or interest, if any on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Interest rates that the trust offers on the fixed rate notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered by other trusts concurrently to different investors. Other trusts may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note any other trust has previously issued or as to which any other trust has accepted an offer to purchase.

### **Floating Rate Notes**

Interest on each series of floating rate notes will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- LIBOR;
- the Prime Rate;
- the Treasury Rate; or
- any other Interest Rate Basis or interest rate formula as may be specified in the applicable pricing supplement.

The applicable pricing supplement will specify certain terms of the particular series of notes that bears interest at floating rates, including:

- whether the note that bears interest at floating rates is:
  - a “Regular Floating Rate Note;” or
  - a “Floating Rate/ Fixed Rate Note;”
- the Fixed Rate Commencement Date, if applicable;
- Fixed Interest Rate, if applicable;
- Interest Rate Basis or Interest Rate Bases;

## Table of Contents

- Initial Interest Rate, if any;
- Interest Reset Dates;
- Interest Payment Dates;
- Index Maturity;
- Maximum Interest Rate and/or Minimum Interest Rate;
- spread and/or spread multiplier; or
- if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

- if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined below) immediately preceding that Interest Reset Date; or
- if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The “spread” is the number of basis points (one one-hundredth of a percentage point) specified in the applicable pricing supplement to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates. The “spread multiplier” is the percentage specified in the applicable pricing supplement of the related Interest Rate Basis or Interest Rate Bases applicable to a series of notes that bears interest at floating rates by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The “Index Maturity” is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

### ***Regular Floating Rate Notes***

Unless a series of floating rate notes is designated as a series of Floating Rate/ Fixed Rate Notes, or as having an addendum attached or having other/additional provisions apply, in each case relating to a different interest rate formula, such series of notes that bears interest at floating rates will be a series of Regular Floating Rate Notes and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

- plus or minus the applicable spread, if any; and/or
- multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, as specified in the relevant pricing supplement, the rate at which interest on a series of Regular Floating Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

### ***Floating Rate/ Fixed Rate Notes***

If a series of notes that bears interest at floating rates is designated as a series of Floating Rate/ Fixed Rate Notes, such series of notes that bears interest at floating rates will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases:

- plus or minus the applicable spread, if any; and/or
- multiplied by the applicable spread multiplier, if any.

Commencing on the first Interest Reset Date, the rate at which interest on a series of Floating Rate/ Fixed Rate Notes is payable will be reset as of each Interest Reset Date; provided, however, that:

- the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate, as specified in the relevant pricing supplement; and
- the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the



## Table of Contents

applicable pricing supplement, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

### ***Interest Reset Dates***

The applicable pricing supplement will specify the dates on which the rate of interest on a series of notes that bears interest at floating rates will be reset (each, an “Interest Reset Date”), and the period between Interest Reset Dates will be the “Interest Reset Period.” Unless otherwise specified in the applicable pricing supplement, the Interest Reset Dates will be, in the case of a series of floating rate notes which reset:

- *daily* — each business day;
- *weekly* — the Wednesday of each week, with the exception of weekly reset series of notes that bear interest at floating rates as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;
- *monthly* — the fifteenth day of each calendar month;
- *quarterly* — the fifteenth day of March, June, September and December of each year;
- *semi-annually* — the fifteenth day of the two months of each year specified in the applicable pricing supplement; and
- *annually* — the fifteenth day of the month of each year specified in the applicable pricing supplement;

provided, however, that, with respect to any series of Floating Rate/ Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any series of notes that bears interest at floating rates would otherwise be a day that is not a business day, the particular Interest Reset Date will be postponed to the next succeeding business day, except that in the case of a series of notes that bears interest at floating rates as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding business day.

### ***Interest Determination Dates***

The interest rate applicable to a series of notes that bears interest at floating rates for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular “Interest Determination Date,” which will be:

- *with respect to the Commercial Paper Rate and the Prime Rate* — the business day immediately preceding the related Interest Reset Date;
- *with respect to the CD Rate and the CMT Rate* — the second business day preceding the related Interest Reset Date;
- *with respect to LIBOR* — the second London Banking Day preceding the related Interest Reset Date; and
- *with respect to the Treasury Rate* — the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday.

The Interest Determination Date pertaining to a series of floating rate notes that bears interest at the interest rate of which is determined with reference to two or more Interest Rate Bases will be the latest business day which is at least two business days before the related Interest Reset Date for the applicable note that bears interest at floating rates on which each Interest Reset Basis is determinable.

### **Calculation Dates**

The indenture trustee will be the “Calculation Agent”, unless otherwise specified in the applicable pricing supplement. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, which will be determined on the particular Interest Determination Date. Upon request of the registered holder of a series of floating rate notes, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular series of floating rate notes. The “Calculation Date,” if applicable, pertaining to any Interest Determination Date will be the earlier of:

- the tenth calendar day after the particular Interest Determination Date or, if such day is not a business day, the next succeeding business day; or
- the business day immediately preceding the applicable Interest Payment Date or the maturity date, as the case may be.

### **Maximum and Minimum Interest Rates**

A series of notes that bears interest at floating rates may also have either or both of the following if specified in the applicable pricing supplement:

- a maximum numerical limitation, or ceiling, that may accrue during any Interest Reset Period (a “Maximum Interest Rate”); and
- a minimum numerical limitation, or floor, that may accrue during any Interest Reset Period (a “Minimum Interest Rate”).

In addition to any Maximum Interest Rate that may apply to a series of notes that bears interest at floating rates, the interest rate on a series of floating rate notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

### **Interest Payments**

Unless otherwise specified in the applicable pricing supplement, interest on each series of notes that bears interest at floating rates will be payable on the date(s) as set forth below (each, an “Interest Payment Date” with respect to such series of notes that bears interest at floating rates). Unless otherwise specified in the applicable pricing supplement, the record date will be the day that is fifteen (15) calendar days preceding the applicable interest payment date, whether or not a business day. Unless otherwise specified in the applicable pricing supplement, the Interest Payment Dates will be, in the case of a series of floating rate notes which reset:

- *daily, weekly or monthly* — the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified in the applicable pricing supplement;
- *quarterly* — the fifteenth day of March, June, September and December of each year;
- *semi-annually* — the fifteenth day of the two months of each year specified in the applicable pricing supplement; and
- *annually* — the fifteenth day of the month of each year specified in the applicable pricing supplement.

In addition, the maturity date will also be an Interest Payment Date.

If any Interest Payment Date other than the maturity date for any series of floating rate notes would otherwise be a day that is not a business day, such Interest Payment Date will be postponed to the next succeeding business day, except that in the case of a series of floating rate notes as to which LIBOR is an applicable Interest Rate Basis and that business day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding business day. If the maturity date of a series of floating rate notes falls on a day that is not a business day, the trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding business day, and no additional interest will accrue

## Table of Contents

in respect of the payment made on that next succeeding business day.

All percentages resulting from any calculation on floating rate notes will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in or resulting from any calculation on floating rate notes will be rounded to the nearest cent.

With respect to each series of floating rate notes, accrued interest is calculated by multiplying the principal amount of such floating rate note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a series of floating rate notes as to which the CD Rate, the Commercial Paper Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a series of floating rate notes as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a series of floating rate notes as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified in the applicable pricing supplement applied.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

### **CD Rate**

“CD Rate” means:

(1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the caption “CDs (secondary market)”; or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “CDs (secondary market)”; or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date.

“H.15(519)” means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/> update, or any successor site or publication.

**CMT Rate**

“CMT Rate” means:

(1) if CMT Moneyline Telerate Page 7051 is specified in the applicable pricing supplement:

(a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “Treasury Constant Maturities”, as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) (“Moneyline Telerate Page 7051”), for the particular Interest Determination Date; or

(b) if the rate referred to in clause (a) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities;” or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a “Reference Dealer”) selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of

## Table of Contents

approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Moneyline Telerate Page 7052 is specified in the applicable pricing supplement:

(a) the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) opposite the caption “Treasury Constant Maturities”, as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) (“Moneyline Telerate Page 7052”), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(b) if the rate referred to in clause (a) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption “Treasury Constant Maturities;” or

(c) if the rate referred to in clause (b) does not so appear in H.15(519), the one-week or one-month, as specified in the applicable pricing supplement, average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

(d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the

## Table of Contents

secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

(e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

(f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

(g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or

(h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable pricing supplement have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

### **Commercial Paper Rate**

“Commercial Paper Rate” means:

(1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “Commercial Paper — Nonfinancial;” or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money

## Table of Contents

Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper — Nonfinancial;” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization; or

(4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date.

“Money Market Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the applicable Interest Reset Period.

## **LIBOR**

“LIBOR” means:

(1) if “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement or if neither “LIBOR Reuters” nor “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency having the Index Maturity specified in the applicable pricing supplement, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(2) if “LIBOR Reuters” is specified in the applicable pricing supplement, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or

(3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(4) if fewer than two offered quotations referred to in clause (3) are

## Table of Contents

provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date.

“LIBOR Currency” means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no currency is specified in the applicable pricing supplement, United States dollars.

“LIBOR Page” means either:

- if “LIBOR Reuters” is specified in the applicable pricing supplement, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or
- if “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement or neither “LIBOR Reuters” nor “LIBOR Moneyline Telerate” is specified in the applicable pricing supplement as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

### **Prime Rate**

“Prime Rate” means:

(1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption “Bank Prime Loan;” or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Bank Prime Loan,” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank’s prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or

(4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or



[Table of Contents](#)

(5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date.

“Reuters Screen US PRIME 1 Page” means the display on the Reuter Monitor Money Rates Service (or any successor service) on the “US PRIME 1” page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

**Treasury Rate**

“Treasury Rate” means:

(1) the rate from the auction held on the Treasury Rate Interest Determination Date (the “Auction”) of direct obligations of the United States (“Treasury Bills”) having the Index Maturity specified in the applicable pricing supplement under the caption “INVESTMENT RATE” on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) (“Moneyline Telerate Page 56”) or page 57 (or any other page as may replace that page on that service) (“Moneyline Telerate Page 57”); or

(2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/ Treasury Bills/ Auction High;” or

(3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or

(4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption “U.S. Government Securities/ Treasury Bills/ Secondary Market;” or

(5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/ Treasury Bills/ Secondary Market;” or

(6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable pricing supplement; or

(7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date.

“Bond Equivalent Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

## Table of Contents

where “D” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the applicable Interest Reset Period.

### **Discount Notes**

A trust may issue a series of notes (“Discount Notes”) that has an Issue Price (as specified in the applicable pricing supplement) that is less than 100% of the principal amount thereof (i.e. par) by more than a percentage equal to the product of 0.25% and the number of full years to the stated maturity date. A series of Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a series of Discount Notes and par is referred to as the “Discount.” In the event of redemption, repayment or acceleration of maturity of a series of Discount Notes, the amount payable to the holders of such series of Discount Notes will be equal to the sum of:

- the Issue Price (increased by any accruals of Discount); and
- any unpaid interest accrued on such series of Discount Notes to the maturity date.

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a series of Discount Notes, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable series of Discount Notes (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable series of Discount Notes and an assumption that the maturity of such series of Discount Notes will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a series of Discount Notes (the “Initial Period”) is shorter than the compounding period for such series of Discount Notes, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended, certain series of Discount Notes may not be treated as having original issue discount within the meaning of such Code, and certain series of notes other than Discount Notes may be treated as issued with original issue discount for United States federal income tax purposes. See “Material United States Federal Income Tax Considerations.”

### **Optional Redemption; Optional Repayment; No Sinking Fund**

In the case of notes that are not discount notes, if an optional redemption date is specified in the pricing supplement relating to a series of notes, and we have redeemed the related funding agreement in full or in part, as applicable, the related trust will redeem the series of notes secured by such funding agreement, in full or in part as applicable, prior to the stated maturity date of such series of notes. Such redemptions shall be made in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at a redemption price equal to 100% of the unpaid principal amount to be redeemed, together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. The trust must give written notice to the holders of the particular series of notes to be redeemed not more than 60 nor less than 30 calendar days prior to the date of redemption. Notes that may be redeemed at a time when 20% or more of the original principal amount of such notes are outstanding will be designated in their title as “callable” in the relevant pricing supplement. For a discussion of the redemption of discount notes, see “— Discount Notes.”

## Table of Contents

If fewer than all of the notes are to be redeemed, DTC will select the notes to be redeemed not more than 60 calendar days prior to the redemption date by lot or, if the notes are not in book-entry form, the indenture trustee will do so, in its reasonable discretion, by lot or on a pro rata basis in accordance with its customary procedures. If any note is redeemed in part only, a new note in principal amount equal to the unredeemed principal portion will be issued.

If an optional repayment right is specified in the pricing supplement relating to a series of notes, such notes may be subject to repayment at the option of the holders of such series of notes on any repayment date specified in the applicable pricing supplement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the notes shall be repayable in whole or in part in increments of \$1,000 at the option of the holders thereof at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. A holder of a series of notes exercising its repayment right must submit to the indenture trustee at its corporate trust office, or at such other place or places of which the relevant trust has notified such holder, the notes to be repaid together with the "option to elect repayment" form attached to the notes not more than 60 nor less than 30 calendar days prior to the date of repayment. Exercise of such repayment right by a holder shall be irrevocable. If a holder requests repayment in part only, a new note in principal amount equal to the principal portion of the notes not repaid will be issued.

Only DTC may exercise a repayment option in respect of notes issued in book-entry form. Accordingly, beneficial owners of notes that desire to exercise their repayment option, if any, with respect to all or any portion of such notes, must instruct the participant through which they own their interest to direct DTC to exercise the repayment option on their behalf by delivering the duly completed election form to the indenture trustee as aforesaid. In order to ensure that the election form is received by the indenture trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before such participant's deadline for accepting instructions for that day. Participants may have different deadlines for accepting instructions from their customers. Accordingly, a beneficial owner should consult the participant through which it owns its interest in the notes for the participant's deadline for receiving payment instructions. In addition, at the time such instructions are given, each such beneficial owner will cause such participant to transfer such beneficial owner's interest in the notes issued in book-entry form, on DTC's records, to the indenture trustee.

No series of notes will be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the applicable pricing supplement.

### **Repayment Upon Exercise of Survivor's Option**

The "survivor's option" is the trust's agreement with the beneficial owner of a note to repurchase that note in whole or in part prior to maturity if requested, following the death of the beneficial owner of notes of that series, so long as the notes were held by the beneficial owner for a period of six (6) months prior to such death. Unless otherwise specified in the applicable pricing supplement, the estate of the deceased beneficial owner of a note will be eligible to exercise the survivor's option.

Subject to the limitations described below, upon the valid exercise of the survivor's option, the proper tender of that note for repayment and the tender and acceptance of that portion of the funding agreement related to such note, a trust will repay any of its notes pursuant to the survivor's option by or on behalf of a person that has the legal authority to act on behalf of the note's deceased owner. Unless otherwise specified in the applicable pricing supplement, the repurchase price will be 100% of the unpaid principal amount plus accrued interest to, but excluding, the date of repayment.

Unless otherwise set forth in the applicable pricing supplement for your series of notes, the funding agreement securing your series of notes will contain a provision which will allow the trust to tender the funding agreement in whole or in part to us. A trust's ability to tender the funding agreement related to a series of notes that contain a survivor's option will be subject to certain limitations set by us. As a result, your right to exercise the survivor's option is subject to limits set by us with respect to the relevant funding

## Table of Contents

agreement. We have the discretionary right to limit:

- the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under the Principal® Life CoreNotes® program as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;
- the aggregate principal amount of funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and
- the aggregate principal amount of the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year as set forth in the applicable funding agreement and the applicable pricing supplement.

In any such event, a trust shall similarly be required to limit the aggregate principal amount of notes as to which exercises of the survivor's option shall be accepted by the trust from authorized representatives of deceased beneficial owners. In addition, the exercise of the survivor's option will not be permitted for a principal amount less than \$1,000 or if such exercise will result in a note with a principal amount of less than \$1,000 to remain outstanding. All other questions, other than with respect to the right to limit the aggregate principal amount of notes subject to the survivor's option that will be accepted as to any series of notes or in any calendar year, regarding the eligibility or validity of any exercise of the survivor's option will be determined by the trustee for the trust, in its sole discretion, which determination will be final and binding on all parties. The indenture trustee, upon written request by the authorized representative of the deceased beneficial owner of notes, will request the trustee to provide the status of the remaining program and series limitations for such calendar year on the exercise of any survivor's option.

The trust will accept elections to exercise the survivor's option in the order received by the trustee of the trust. Notes that are not repaid in any calendar year due to the application of the limits described above will be treated as though they had been tendered on the first day of the following calendar year in the order in which they were originally tendered. Subject to the limitations described above, notes accepted for repayment will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of acceptance.

If repayment of a note submitted for repayment pursuant to a valid exercise of the survivor's option is not accepted or is to be delayed, the trustee of the trust will deliver a written notice by first-class mail to the depository that states the reason that repayment of that particular note has not been accepted or will be delayed.

A valid exercise of the survivor's option may not be withdrawn.

To exercise the survivor's option with respect to a book-entry note, the deceased owner's authorized person must provide the following items to the DTC "participant" through which the relevant beneficial interest is owned (for a discussion of DTC and its participants, see "— About the Depository"):

- a written instruction to the participant to notify DTC of the authorized person's desire to obtain a payment pursuant to the exercise of the survivor's option;

## Table of Contents

- appropriate evidence (a) that the person has authority to act on behalf of the deceased owner, (b) of the death of the beneficial owner, (c) that the deceased was the beneficial owner of the notes at the time of death and (d) that the beneficial owner acquired the interest in the note at least six (6) months prior to the date of death of such beneficial owner;
- if the beneficial interest in the relevant note is held by a nominee of the deceased owner, a certificate from the nominee attesting to the deceased owner's ownership of a beneficial interest in that note;
- a written request for repayment signed by the authorized person for the deceased owner with signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States;
- if applicable, a properly executed assignment or endorsement;
- tax waivers and any other instruments or documents reasonably required to establish the validity of the ownership of the beneficial interest in the related note and the claimant's entitlement to payment; and
- any additional information reasonably required to document the ownership or authority to exercise the survivor's option and to cause the repayment of the related note.

In turn, on the basis of this information, the participant will be required to deliver to the indenture trustee a properly completed repayment election form to exercise the survivor's option, together with evidence satisfactory to the indenture trustee from the participant stating that it represents the deceased owner of the beneficial interest in the relevant note. The indenture trustee will then deliver these items to the trustee and will provide the trustee with any additional information (after receipt from the participant) the trustee may request in connection with such exercise.

Apart from our discretionary right to limit the principal amount of notes as to which the survivor's option may be exercised in any calendar year as described above, the trustee will determine all other questions regarding the eligibility or validity of any exercise of the survivor's option. The trustee's determination will be final and binding on all parties.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others will be treated as the death of the owner of that note, and the entire principal amount so owned will be eligible for repayment.

The death of a person owning a note by tenancy in common will be treated as the death of the owner of that note only with respect to the deceased owner's interest in the note held by tenancy in common. However, if a note is held by husband and wife as tenants in common, the death of either spouse will be treated as the death of the owner of the note and the entire principal amount so owned will be eligible for repayment.

The death of a person who was a lifetime beneficiary of a trust that owns a note will be treated as the death of the owner of the note to the extent of that person's interest in the trust. The death of a person who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust that owns a note will be treated as the death of the owner of the note only with respect to the deceased person's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be treated as the death of the owner of the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note will be treated as the death of the owner of the note if the beneficial interest can be established to the trustee's satisfaction. This will be done in typical cases of nominee ownership, such as ownership under the Uniform Transfers of Gifts to Minors Act, community property or other joint ownership

## [Table of Contents](#)

arrangements between a husband and wife and lifetime custodial and trust arrangements.

The applicable participant will be responsible for disbursing payments received from the indenture trustee to the authorized person for the deceased owner.

Annex A to this prospectus supplement is the repayment election form for use by DTC participants in exercising the survivor's option. Copies of this form may be obtained from the trustee at its corporate trust office located at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.

If applicable, the applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, the related regulations and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders.

### **Purchase of Notes by Us**

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us will be surrendered to the indenture trustee for cancellation. Concurrently with the surrender to the indenture trustee of any note, the funding agreement related to such note will be similarly redeemed.

If applicable, such applicable trust will comply with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repurchase of the notes by us.

### **Tax Redemption**

If a "tax event" as to the relevant funding agreement occurs, we will have the right to redeem the funding agreement and, upon such redemption, the applicable trust will redeem its series of notes in the same manner described under "— Optional Redemption; Optional Repayment; No Sinking Fund" above. For further discussion of "tax event" redemption, see "Description of the Funding Agreements — Early Redemption for Tax Event" in the accompanying prospectus.

### **Security; Non-Recourse Obligations**

Each series of notes will be solely the obligations of the related trust and will not be guaranteed by any person, including but not limited to us, PFG, the purchasing agent, any of our or their affiliates or any other trust. A trust's obligations under its series of notes will be secured by all of its rights and title in a funding agreement issued by us, the payment obligations of which are guaranteed by the related guarantee issued by PFG to the trust and other rights and assets included in the applicable collateral held in the trust.

Since we will be the sole obligor under the funding agreement and PFG will be the sole obligor under the related guarantee, the trust's ability to meet its obligations, and your ability to receive payments from the trust, with respect to each applicable series of notes, will be principally dependent upon our ability to perform our obligations under the applicable funding agreement held in the relevant trust and PFG's ability to perform its obligations under the guarantee of our payment obligations under the related funding agreement. However, you will have no direct contractual rights against us or PFG under the funding agreement or the guarantee, respectively. Under the terms of the funding agreement and related guarantee, recourse rights to us or PFG, respectively, will belong to the trust, its successors and its permitted assignees, but only with respect to the relevant trust. In connection with the offering and sale of a series of notes, the trust will collaterally assign and grant a security interest in the relevant funding agreement for such series of notes to, and the trust will collaterally assign and grant a security interest in the related guarantee in favor of, the indenture trustee for the benefit of the holders of such series of notes. Accordingly, recourse to us under such funding agreement and to PFG under the related guarantee will be enforceable only by the indenture trustee as a secured party on behalf of the holders of such series of notes by directing the indenture trustee under the limited circumstances described in the accompanying prospectus under "Description of the Notes — Certain Rights of Holders." See also "Description of the Notes — Nonrecourse Enforcement" in the accompanying prospectus.

## Book-Entry Notes

We have established a depository arrangement, on behalf of the trusts, with DTC with respect to the book-entry notes, the terms of which are summarized below.

All book-entry notes having the same terms will be represented by one or more global securities. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or its nominee. No global security may be transferred or exchanged except as a whole by DTC or a nominee of DTC to DTC or to another nominee of DTC, or by DTC or another nominee of DTC to a successor of DTC or a nominee of a successor to DTC. So long as DTC or its nominee is the registered holder of a global security, DTC or its nominee will be the sole owner of the related book-entry notes represented thereby for all purposes under the indenture. Except as otherwise provided below, the beneficial owners of the global security or securities represented by book-entry notes will not be entitled to receive physical delivery of definitive notes and will not be considered the registered holders of the book-entry notes for any purpose under the indenture and no global security representing book-entry notes will be exchangeable or transferable. As a result, to exercise any rights of a registered holder under the indenture, a beneficial owner must rely on the procedures of DTC and, if the beneficial owner is not a participant, on the procedures of the participant or participants through which the beneficial owner owns its interest. The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may limit the ability to transfer beneficial interests in a global security represented by book-entry notes.

Each global security representing book-entry notes will be exchangeable for definitive notes having the same terms in a like aggregate principal amount only if:

- the trust notifies the indenture trustee that the trust wishes in its sole discretion to exchange the global security for definitive notes;
- an event of default on the notes of that series has occurred and has not been cured; or
- DTC notifies us that it is unwilling or unable to continue as a clearing system for the global securities, or we have become aware that it has ceased to be a clearing agency registered under the Securities Exchange Act of 1934, as amended and, in either case, a successor clearing system is not appointed by us within 60 calendar days after receiving the notice from DTC or becoming aware that DTC is no longer registered.

If any of these events occurs, the appropriate trust will print and deliver definitive notes. Definitive notes issued under these circumstances will be registered in the names of the beneficial owners of the related global securities as provided to the indenture trustee by the participants identified by DTC.

## About the Depository

The following is based on information furnished by DTC:

DTC will act as securities depository for the book-entry notes. The book-entry notes will be issued as fully registered securities in the name of Cede & Co. (DTC's nominee) or another name requested by DTC. One fully registered global security will be issued for each issue of a series of book-entry notes in the aggregate principal amount of that issue and will be deposited with, or on behalf of, DTC. If the aggregate principal amount of any issue exceeds DTC's limit for a single global security, then the global securities will be issued in the form of one or more global securities having a principal amount equal to DTC's limit and one or more additional global securities representing any remaining principal amount.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants deposit with it. DTC also facilitates the settlement

## Table of Contents

among direct participants of transactions in deposited securities, such as transfers and pledges, through electronic computerized book-entry changes in direct participants' accounts. This eliminates the need for physical movement of securities certificates. DTC's direct participants include securities brokers and dealers (including the purchasing agent), banks, trust companies, clearing corporations and other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Under DTC's system, purchases of book-entry notes must be made by or through direct participants, which will receive a credit for the book-entry notes on DTC's records. The ownership interest of the actual purchaser is in turn recorded on the records of the direct and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which they entered into the transaction. Transfers of ownership interests in book-entry notes are accomplished by entries made on the books of the direct and indirect participants acting on behalf of the beneficial owners. Beneficial owners will not receive definitive notes unless use of the book-entry system is discontinued as described above.

To facilitate subsequent transfers, all global securities representing the book-entry notes deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co., or any other name that DTC requests. The deposit of global securities with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the book-entry notes; DTC's records reflect only the identity of the direct participants to whose accounts the book-entry notes are credited, which may or may not be the beneficial owners. DTC's participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications from DTC to direct participants, from direct participants to indirect participants and from direct participants and indirect participants to beneficial owners are governed by arrangements among them and are subject to statutory and regulatory requirements.

Neither DTC nor Cede & Co. will consent or vote with respect to global securities. Under its usual procedures, DTC mails an omnibus proxy to a company as soon as possible after a record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the book-entry notes are credited on the record date (identified in a listing attached to the omnibus proxy).

The trust will make payments on the global securities in immediately available funds to Cede & Co. or any other nominee named by DTC. DTC's practice is to credit direct participants' accounts on the applicable payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that date. Payments by participants to beneficial owners are governed by standing instructions and customary practices and are subject to statutory and regulatory requirements. The trust and the trustee are responsible only for making payments to DTC; DTC is responsible for disbursing those payments to its direct participants and the direct participants (and any indirect participants) are solely responsible for disbursing those payments to the beneficial owners.

Any redemption notices will be sent to Cede & Co. If less than all of the book-entry notes having the same terms are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each direct participant in those notes to be redeemed.

A beneficial owner must give notice of any election to have its book-entry notes repaid through its participant to the trustee. Delivery of the book-entry notes will be effected by causing the relevant direct participant to transfer the relevant part of its interest in the global securities to the trustee on DTC's records.



## Table of Contents

DTC may discontinue providing its services as securities depository at any time by giving reasonable notice to us or the indenture trustee. If we do not obtain a successor securities depository, the applicable trust will print and deliver definitive notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). If we do so, the applicable trust will print and deliver definitive notes.

### **DESCRIPTION OF THE FUNDING AGREEMENTS**

Each trust will use the net proceeds from the issuance of a series of notes to the public and the issuance of the trust beneficial interest to the trust beneficial owner to purchase a funding agreement. The funding agreement will have substantially similar payment and other terms to the related series of notes. The funding agreement may be interest bearing or non-interest bearing. A funding agreement may bear interest at either a fixed or a floating rate, or a combination of fixed and floating rates, as specified in the applicable pricing supplement. The calculation of the interest rate, the dates of interest and maturity payments and such other payment terms on the funding agreement will be determined in the same manner as described above under “Description of the Notes.” An amount equal to the funding agreement deposit plus accrued but unpaid interest, if any, and accrued discount, if any (in the case of a discount funding agreement) will be payable on its stated maturity date, as specified in the applicable pricing supplement.

The pricing supplement relating to a series of notes will describe the following pricing terms of the related funding agreement:

- the deposit amount for the funding agreement;
- whether the funding agreement:
  - (1) is a fixed rate funding agreement,
  - (2) is a floating rate funding agreement, and/or
  - (3) is a discount funding agreement that does not bear interest currently or bears interest at a rate that is below market rates at the effective date;
- the price at which the funding agreement will be issued, which will be expressed as a percentage of the aggregate deposit amount or face amount;
- the effective date on which the funding agreement will be issued;
- the stated maturity date;
- if the funding agreement is a fixed rate funding agreement, the rate per annum at which the funding agreement will bear any interest and the interest payment date frequency;
- if the funding agreement is a floating rate funding agreement, relevant terms such as:
  - (1) the interest rate basis,
  - (2) the initial interest rate,
  - (3) the interest reset period or the interest reset dates,
  - (4) the interest payment dates,
  - (5) the index maturity,
  - (6) any maximum interest rate,
  - (7) any minimum interest rate,
  - (8) the spread and/or spread multiplier, and
  - (9) any other terms relating to the particular method of calculating the interest rate for the funding agreement and whether and how the spread and/or spread multiplier may be changed prior to stated maturity;
- whether the funding agreement may be redeemed by us, or repaid at the option of the trust, prior to the stated maturity and the terms of its redemption or repayment; provided in either case the relevant series of notes will contain substantially the same redemption and repayment

terms and no funding agreement may be redeemed or repaid without the simultaneous redemption or repayment of the related series of notes; and

- any other terms of the funding agreement.

For a more detailed discussion of the funding agreements, see “Description of the Funding Agreements” in the accompanying prospectus.

#### **MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general discussion of the material United States federal income tax considerations relating to the purchase, ownership and disposition of the notes by initial purchasers of the notes who are Holders (as defined below), purchase the notes at their stated principal amount and hold the notes as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”). The statements set forth in the following discussion, to the extent they constitute matters of United States federal income tax law or legal conclusions with respect thereto, represent the opinion of Sidley Austin Brown & Wood LLP, special United States income tax counsel to us. This discussion does not address all of the tax considerations that may be relevant to prospective purchasers in light of their particular circumstances or to persons subject to special rules under United States federal tax laws, such as certain financial institutions, insurance companies, dealers in securities, tax-exempt entities, persons who hold the notes as part of a “straddle,” “hedging,” “conversion” or other integrated transaction, persons who mark their securities to market for United States federal income tax purposes or persons whose functional currency is not the U.S. dollar. In addition, this discussion does not address the effect of any state, local or foreign tax laws. Accordingly, prospective purchasers are advised to consult their own tax advisers with respect to their individual circumstances.

This discussion is based on the Code, the Treasury Regulations promulgated thereunder and administrative and judicial pronouncements, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. Except where indicated, this discussion does not describe the tax consequences of holding a note that is treated as a “variable rate debt instrument” or a “contingent payment debt instrument” under applicable Treasury Regulations, and a general summary of any materially different federal income tax considerations relating to any such note will be included in the relevant pricing supplement.

For purposes of the following discussion, the term “Holder” means a beneficial owner of a note who or which is, for United States federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof or (iii) an estate or trust treated as a United States person under section 7701(a)(30) of the Code. This discussion does not address the tax considerations that may be relevant to a person who or which is not a Holder.

#### **Classification of the Notes and the Trust**

We intend to take the position, for United States federal income tax purposes, that each trust will be disregarded and that the notes will be treated as our indebtedness (the “Intended Tax Characterization”). Each Holder of a note (or any beneficial interest therein), by acceptance of the note (or beneficial interest), agrees to treat the trust with respect to which the note was issued and the note consistently with the Intended Tax Characterization.

Notwithstanding the Intended Tax Characterization, it is possible that a trust could be viewed as a separate entity for United States federal income tax purposes. Sidley Austin Brown & Wood LLP is of the opinion that, under current law and assuming full compliance with the terms of the trust agreement and the indenture (and certain other documents), and based on certain facts and assumptions contained in such opinion, each trust will not be classified as an association (or publicly traded partnership) taxable as a corporation for United States federal income tax purposes. Accordingly, whether the Intended Tax Characterization is respected or not, each trust will not be treated as a taxable entity for United States federal income tax purposes. If a

## [Table of Contents](#)

trust is viewed as a separate entity rather than disregarded, each Holder of a note (or any beneficial interest therein) agrees to treat the trust as a grantor trust and the notes as undivided ownership interests in such trust. If this were the case, a Holder would be required to include in income, consistent with its method of accounting, its pro rata share of any amounts paid to the relevant trust to satisfy expenses and would be entitled to deduct, consistent with its method of accounting, its pro rata share of any such expenses as provided in sections 162 and 212 of the Code. If the Holder is an individual, trust or estate, or to the extent the Holder's income is reportable on the income tax return of an individual, trust or estate, the deduction for such person's share of such expenses will be allowed only to the extent that all of such person's miscellaneous itemized deductions, including such person's share of the relevant trust's expenses, exceed two percent of such person's adjusted gross income. In addition, an individual's itemized deductions may be subject to other limitations. Accordingly, Holders who are individuals, or whose income is reported in whole or in part on the income tax return of a United States citizen or resident, should consult their tax advisers with respect to such deductions.

The remainder of this summary assumes that the Intended Tax Characterization is correct.

### **Interest and Original Issue Discount**

Each Holder of a note will include in income payments of "qualified stated interest" (as described below) in respect of such note, in accordance with such Holder's method of accounting for United States federal income tax purposes, as ordinary interest income. In general, if the issue price of a note, determined by the first price at which a substantial amount of the notes of the related series are sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), is less than the "stated redemption price at maturity" (as described below) of such note by an amount equal to or more than a de minimis amount, a Holder will be considered to have purchased such note with original issue discount ("OID"). In general, the de minimis amount is equal to 1/4 of one percent of the stated redemption price at maturity multiplied by the weighted average number of complete years to maturity from the issue date of such note. If a Holder acquires a note with OID, then regardless of such Holder's method of accounting, such Holder will be required to accrue its pro rata share of OID on such note on a constant-yield basis and include such accruals in gross income, whether or not such Holder has received any cash payment on the notes. Any amount not treated as OID because it is de minimis generally must be included in income (generally as gain from the sale of notes) as principal payments are received in the proportion that each such payment bears to the original principal amount of the note.

"Stated redemption price at maturity" means the sum of all payments to be made on a note other than payments of "qualified stated interest." "Qualified stated interest" generally means stated interest that is unconditionally payable at least annually at a single fixed rate or, in the case of a variable rate debt instrument, at a rate or combination of rates meeting certain specified criteria.

### **Short-Term Notes**

Notes that have a fixed maturity of one year or less ("Short-Term Notes") will be treated as issued with OID. In general, an individual or other Holder that uses the cash method of accounting is not required to accrue such OID unless the Holder elects to do so. If such an election is not made, any gain recognized by such Holder on the sale, exchange, retirement or other disposition of Short-Term Notes will be ordinary income to the extent of the OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of sale, exchange, retirement or other disposition, and a portion of the deduction otherwise allowable to such Holder for interest on borrowings allocable to Short-Term Notes will be deferred until a corresponding amount of income is realized. Holders who report income for United States federal income tax purposes under the accrual method of accounting and certain other Holders are required to accrue OID related to a Short-Term Note as ordinary income on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding).

## **Sale, Exchange, Retirement or Other Disposition of Notes**

In general, a Holder of a note will have a tax basis in the note equal to the cost of the note to the Holder, increased by any amount includible in income by the Holder as OID and reduced by any principal payments. Upon a sale, exchange, retirement or other disposition (including upon exercise of a survivor's option) of a note, a Holder will generally recognize gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition (less any amount realized that is attributable to accrued but unpaid interest, which will constitute ordinary income if not previously included in income) and the Holder's tax basis in such note. Such gain or loss will be long-term capital gain or loss if the Holder held the note for more than one year at the time of disposition. A Holder that is an individual is entitled to preferential treatment for net long-term capital gains; however, the ability of a Holder to offset capital losses against ordinary income is limited.

## **Backup Withholding and Information Reporting**

Backup withholding and information reporting requirements generally apply to interest (including OID) and principal payments made to, and to the proceeds of sales by, certain non-corporate Holders. A Holder not otherwise exempt from backup withholding generally can avoid backup withholding by providing a properly-executed Internal Revenue Service Form W-9 (or successor form). Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against the beneficial owner's United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

## **Opinion Regarding Tax Matters**

Prior to the issuance of any notes, we will file with a Current Report on Form 8-K an unqualified opinion of legal counsel regarding the tax treatment of such notes.

## **PLAN OF DISTRIBUTION**

This prospectus supplement relates to the offering of notes by separate trusts from time to time for sale to or through Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Purchasing Agent, pursuant to a distribution agreement (the "Distribution Agreement") among the applicable trust, us, PFG and the agents named therein. The trusts may not sell notes offered under this Principal® Life CoreNotes® program to or through any brokers or dealers other than the Purchasing Agent. Under the terms of the Distribution Agreement, one or more separate trusts may also sell notes to or through agents primarily to institutional investors under our secured medium-term notes program. The Purchasing Agent may purchase notes, as principal, from the applicable trust for resale to investors at a fixed offering price or at varying prices relating to prevailing market prices at the time of resale as determined by the Purchasing Agent. The applicable trust may agree with the Purchasing Agent that the Purchasing Agent will utilize its reasonable efforts on an agency basis on its behalf to solicit offers to purchase notes at 100% of the principal amount thereof, unless otherwise specified in the applicable pricing supplement. In all such cases, a single trust may only issue notes of a single series on the initial date of sale of such notes. No additional notes may thereafter be issued by that trust. Unless otherwise specified in the applicable pricing supplement, the applicable trust will pay a commission to the Purchasing Agent, ranging from .125% to 2.000% of the principal amount of each note, depending upon its stated maturity, sold through the Purchasing Agent as its agent. The applicable trust may negotiate commissions with respect to notes with stated maturities in excess of 20 years that are sold through the Purchasing Agent as the trust's agent at the time of the related sale. The notes may be sold in the United States to retail, institutional and other investors.

Subject to the terms of the Distribution Agreement, concurrently with any offering of notes as described in this prospectus supplement by the applicable trust, a separate trust may issue other notes under our secured medium-term notes program primarily to institutional investors or the accompanying prospectus or this prospectus supplement.

## Table of Contents

Unless otherwise specified in the applicable pricing supplement, any note sold to the Purchasing Agent as principal will be purchased by the Purchasing Agent at a price equal to 100% of the principal amount thereof less a percentage of the principal amount equal to the commission applicable to an agency sale of a note of identical maturity. The Purchasing Agent may sell notes it has purchased from the applicable trust as principal to other National Association of Securities Dealers, Inc. dealers in good standing at a concession. Unless otherwise specified in the applicable pricing supplement, the concession allowed to any dealer will not, during the distribution of the notes, be in excess of the concession the Purchasing Agent will receive from the applicable trust. After the initial offering of notes, the offering price (in the case of notes to be sold on a fixed offering price basis), the concession and any reallowance may be changed.

The applicable trust reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject offers in whole or in part. The Purchasing Agent will have the right, in its discretion reasonably exercised, to reject in whole or in part any offer to purchase notes received by it on an agency basis.

Unless otherwise specified in the applicable pricing supplement, you will be required to pay the purchase price of your notes in immediately available funds in United States dollars in The City of New York on the date of settlement.

Upon issuance, the notes will not have an established trading market. The notes may not be listed on any securities exchange. The Purchasing Agent may from time to time purchase and sell notes in the secondary market, but the Purchasing Agent is not obligated to do so. There can be no assurance that a secondary market for the notes will develop or that there will be liquidity in the secondary market if one develops. From time to time, the Purchasing Agent may make a market in the notes, but the Purchasing Agent is not obligated to do so and may discontinue any market-making activity at any time.

In connection with an offering of notes purchased by the Purchasing Agent as principal on a fixed offering price basis, the Purchasing Agent will be permitted to engage in certain transactions that stabilize the price of notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of notes. If the Purchasing Agent creates a short position in notes (i.e., if they sell notes in an amount exceeding the amount referred to in the applicable pricing supplement), they may reduce that short position by purchasing notes in the open market. In general, purchases of notes for the purpose of stabilization or to reduce a short position could cause the price of notes to be higher than it might be in the absence of these type of purchases.

None of us, PFG, any trust or the Purchasing Agent makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of notes. In addition, none of us, PFG, any trust or the Purchasing Agent makes any representation that the Purchasing Agent will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Purchasing Agent is an “underwriter” within the meaning of the Securities Act of 1933, as amended, with respect to the notes being distributed, the funding agreement purchased by the trust and the guarantee issued to the trust. We and PFG have agreed, jointly and severally, to indemnify the Purchasing Agent against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Purchasing Agent may be required to make in respect thereof.

We are a statutory issuer of the notes under the Securities Act of 1933, as amended.

In the ordinary course of business, the Purchasing Agent and its affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us and certain of our affiliates.

Broker-dealers and securities firms have executed dealer agreements with the Purchasing Agent and have agreed to market and sell the notes in accordance with the terms of those agreements and applicable laws and regulations.

**REPAYMENT ELECTION FORM**

**Principal Life Insurance Company**

**Principal® Life CoreNotes®  
Cusip Number \_\_\_\_\_**

To: [Name of Trust] (the “TRUST”)

The undersigned financial institution (the “FINANCIAL INSTITUTION”) represents the following:

- The Financial Institution has received a request for repayment from the executor or other authorized representative (the “AUTHORIZED REPRESENTATIVE”) of the deceased beneficial owner listed below (the “DECEASED BENEFICIAL OWNER”) of Principal® Life CoreNotes® (CUSIP No. \_\_\_\_\_) (the “NOTES”).
- At the time of his or her death, the Deceased Beneficial Owner owned Notes in the principal amount listed below.
- The Deceased Beneficial Owner acquired the Notes at least six (6) months before the date of death of such Deceased Beneficial Owner.
- The Financial Institution currently holds such notes as a direct or indirect participant in The Depository Trust Company (the “DEPOSITARY”).

The Financial Institution agrees to the following terms:

- The Financial Institution shall follow the instructions (the “INSTRUCTIONS”) accompanying this Repayment Election Form (this “FORM”).
- The Financial Institution shall make all records specified in the Instructions supporting the above representations available to U.S. Bank Trust National Association (the “TRUSTEE”) or the [Name of Trust] (the “TRUST”) for inspection and review within five business days of the Trustee’s or the Trust’s request.
- If the Financial Institution, the Trustee or the Trust, in any such party’s reasonable discretion, deems any of the records specified in the Instructions supporting the above representations unsatisfactory to substantiate a claim for repayment, the Financial Institution shall not be obligated to submit this Form, and the Trustee or Trust may deny repayment. If the Financial Institution cannot substantiate a claim for repayment, it shall notify the Trustee immediately.
- Repayment elections may not be withdrawn.
- The Financial Institution agrees to indemnify and hold harmless the Trustee and the Trust against and from any and all claims, liabilities, costs, losses, expenses, suits and damages resulting from the Financial Institution’s above representations and request for repayment on behalf of the Authorized Representative.
- The Notes will be repaid on the first Interest Payment Date to occur at least 20 calendar days after the date of acceptance of the notes for repayment, unless such date is not a business day, in which case the date of repayment shall be the next succeeding business day.
- Subject to the Trust’s rights to limit the aggregate principal amount of Notes as to which exercises of the survivor’s option shall be accepted in any one calendar year, all questions as to the eligibility or validity of any exercise of the survivor’s option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.

**REPAYMENT ELECTION FORM**

(1)

---

**Name of Deceased Beneficial Owner**

(2)

---

**Date of Death**

(3)

---

**Name of Authorized Representative Requesting Repayment**

(4)

---

**Name of Financial Institution Requesting Repayment**

(5)

---

**Signature of Authorized Representative of Financial Institution Requesting Repayment**

(6)

---

**Principal Amount of Requested Repayment**

(7)

---

**Date of Election**

(8)

Financial Institution  
Representative Name:  
Phone Number:  
Fax Number:  
Mailing Address (no P.O. Boxes):

(9)

Wire instructions for payment:  
Bank Name:  
ABA Number:  
Account Name:  
Account Number:  
Reference (optional):

---

**TO BE COMPLETED BY THE TRUSTEE:**

(A)

**Election Number\*:**

(B)

**Delivery and Payment Date:**

(C)

**Principal Amount:**

(D)

**Accrued Interest:**

(E)

**Date of Receipt of Form by the Trustee:**

(F)

**Date of Acknowledgment by the Trustee:**

---

\* To be assigned by the Trustee upon receipt of this Form. An acknowledgement, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated in item (8) above.

**INSTRUCTIONS FOR COMPLETING REPAYMENT ELECTION FORM AND EXERCISING REPAYMENT OPTION**

Capitalized terms used and not defined herein have the meanings defined in the accompanying Repayment Election Form.

1. Collect and retain for a period of at least three years (1) satisfactory evidence of the authority of the Authorized Representative, (2) satisfactory evidence of death of the Deceased Beneficial Owner, (3) satisfactory evidence that the Deceased Beneficial Owner beneficially owned, at the time of his or her death, the notes being submitted for repayment, (4) satisfactory evidence that the notes being submitted for repayment were acquired by the Deceased Beneficial Owner at least six (6) months before the date of the death of such Deceased Beneficial Owner, and (5) any necessary tax waivers. For purposes of determining whether the notes will be deemed beneficially owned by an individual at any given time, the following rules shall apply:

- If a note (or a portion thereof) is beneficially owned by tenants by the entirety or joint tenants, the note (or relevant portion thereof) will be regarded as beneficially owned by a single owner. Accordingly, the death of a tenant by the entirety or joint tenant will be deemed the death of the beneficial owner and the entire principal amount so owned will become eligible for repayment.
- The death of a person beneficially owning a note (or a portion thereof) by tenancy in common will be deemed the death of the beneficial owner only with respect to the deceased owner's interest in the note (or relevant portion thereof) so owned, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficial owner and the entire principal amount so owned will be eligible for repayment.
- A note (or a portion thereof) beneficially owned by a trust will be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary's interest in the trust (however, a trust's beneficiaries collectively cannot be beneficial owners of more notes than are owned by the trust). The death of a beneficiary of a trust will be deemed the death of the beneficial owner of the notes (or relevant portion thereof) beneficially owned by the trust to the extent of that beneficiary's interest in the trust. The death of an individual who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust only with respect to the deceased holder's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficiary of the trust.
- The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a note (or a portion thereof) will be deemed the death of the beneficial owner of that note (or relevant portion thereof), regardless of the registration of ownership, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest will exist in many cases of street name or nominee ownership, custodial arrangements, ownership by a trustee, ownership under the Uniform Transfers of Gifts to Minors Act and community property or other joint ownership arrangements between spouses. Beneficial interest will be evidenced by such factors as the power to sell or otherwise dispose of a note, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a note.

2. Indicate the name of the Deceased Beneficial Owner on line (1).

3. Indicate the date of death of the Deceased Beneficial Owner on line (2).

4. Indicate the name of the Authorized Representative requesting repayment on line (3).



[Table of Contents](#)

5. Indicate the name of the Financial Institution requesting repayment on line (4).

6. Affix the authorized signature of the Financial Institution's representative on line (5). THE SIGNATURE MUST BE MEDALLION SIGNATURE GUARANTEED.

7. Indicate the principal amount of notes to be repaid on line (6).

8. Indicate the date this Form was completed on line (7).

9. Indicate the name, mailing address (no P.O. boxes, please), telephone number and facsimile-transmission number of the party to whom the acknowledgment of this election may be sent in item (8).

10. Indicate the wire instruction for payment on line (9).

11. Leave lines (A), (B), (C), (D), (E) and (F) blank.

12. Mail or otherwise deliver an original copy of the completed Form to:

Citibank, N.A.

Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, New York 10005

13. FACSIMILE TRANSMISSIONS OF THE REPAYMENT ELECTION FORM WILL NOT BE ACCEPTED.

14. If the acknowledgement of the Trustee's receipt of this Form, including the assigned Election Number, is not received within ten days of the date such information is sent to Citibank, N.A., contact the Trustee at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.

15. For assistance with this Form or any questions relating thereto, please contact U.S. Bank Trust National Association at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.

**\$4,000,000,000**

**PRINCIPAL LIFE INSURANCE COMPANY**

**Principal Life® CoreNotes®**

**Due Between Nine Months and Thirty Years**

**From the Date of Issue  
Issued Through  
Principal Life Income Fundings Trusts**

---

**PROSPECTUS SUPPLEMENT**

---

**Merrill Lynch & Co.**

**March , 2004**

“Principal®” is a registered service mark of Principal Financial Services, Inc. as is used under license.

“CoreNotes®” is a registered service mark of Merrill Lynch & Co., Inc.

---

---

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or would require registration or qualification under the securities laws of the jurisdiction.

**SUBJECT TO COMPLETION, DATED MARCH 3, 2004**

**PROSPECTUS**

**\$4,000,000,000**



**Principal Life Insurance Company  
Secured Medium-Term Notes  
Issued Through  
Principal Life Income Fundings Trusts**

We are Principal Life Insurance Company, an Iowa insurance company and the depositor of the funding agreements described below. This prospectus relates to the offering, from time to time, through newly established separate and distinct trusts described below to institutional and retail investors, of one or more series of secured medium-term notes, which we refer to in this prospectus as “notes,” in an aggregate principal amount of up to \$4,000,000,000 or the equivalent amount in one or more foreign or composite currencies.

The applicable trust will use the net proceeds from the offering of the applicable series of notes to purchase a funding agreement sold to, and deposited into, the applicable trust by us. Our payment obligations under the funding agreement relating to the applicable series of notes will be fully and unconditionally guaranteed by a guarantee issued by Principal Financial Group, Inc., a Delaware corporation and our indirect parent (“PFG”).

Each trust will exist for the exclusive purpose of issuing and selling one series of notes to investors, using the net proceeds from the sale of that series of notes to acquire a funding agreement from us, collaterally assigning and granting a security interest in the applicable funding agreement, and collaterally assigning and granting a security interest in the applicable guarantee, in favor of the indenture trustee, or engaging in other activities necessary or incidental thereto. The notes may be offered to institutional or retail investors.

Notes offered to institutional investors will be offered under the prospectus supplement to this prospectus relating to our secured medium-term notes program. These notes will:

- provide for payment in U.S. dollars or one or more foreign currencies;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement);
- have a stated maturity of between 9 months and 30 years from the date of issue; and
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of the notes.

Notes offered to retail investors will be offered under the prospectus supplement to this prospectus relating to the Principal® Life CoreNotes® program. These notes will:

- provide for payment in U.S. dollars;
- bear interest at fixed or floating rates, or bear no interest at all;
- pay interest on each series of notes on a monthly, quarterly, semi-annual or annual basis (unless otherwise specified in the applicable pricing supplement);
- have a stated maturity of between 9 months and 30 years from the date of issue; and
- have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of notes.

We will provide the specific terms of an offering of notes in an accompanying prospectus supplement and pricing supplement, including how a particular offering of notes will be made and whether the notes of any series will be listed on a securities exchange.

Our principal executive offices are located at 711 High Street, Des Moines, Iowa 50392-0001 and our telephone number is (515) 247-5111.

**See “Risk Factors” beginning on page 2 for a discussion of certain risks that should be considered in connection with an investment in the notes.**

---

**None of the Securities and Exchange Commission, any state securities commission or any state insurance commission has approved or disapproved of these securities or determined if this prospectus, any prospectus supplement or any pricing supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

---

The date of this prospectus is March , 2004

“Principal®” and “Principal Financial Group and Design®” are registered service marks of Principal Financial Services, Inc. and are used under license.

“CoreNotes®” is a registered service mark of Merrill Lynch & Co., Inc.

---

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we and PFG filed with the Securities and Exchange Commission (the “SEC”) utilizing a “shelf” registration process. Under this process, notes may be offered, from time to time, through newly established separate and distinct trusts, up to a total amount of \$4,000,000,000 in aggregate principal amount or the equivalent principal amount in one or more foreign or composite currencies. This prospectus provides you with a general description of the notes offered through trusts. An accompanying prospectus supplement to this prospectus will provide the specific terms of the notes. Each time notes are offered through a trust, we may also provide a pricing supplement to this prospectus and the applicable prospectus supplement that will contain specific information about the terms of the offering. The pricing supplement may also add to, update, supplement or clarify the information contained in this prospectus and applicable prospectus supplement and, accordingly, before you agree to purchase any notes, you should read this prospectus, the applicable prospectus supplement and any pricing supplement together with the information described under the heading “Where You Can Find More Information” on page 12.

In this prospectus, references to “Principal Life,” “we,” “us” and “our” are to Principal Life Insurance Company, an Iowa insurance company, references to “PFG” are to Principal Financial Group, Inc., a Delaware corporation and our indirect parent company, and references to a “trust” are to the applicable separate and distinct special purpose common law trusts, formed in a jurisdiction located in the United States of America, which actually issues the applicable series of notes. In this prospectus, we refer to each series of Secured Medium-Term Notes as a “series of notes” and to Secured Medium-Term Notes in general as “notes.”

In this prospectus, references to “United States dollars,” “U.S. dollars,” or “\$” are to lawful currency of the United States of America, and references to “euro” are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

You should rely only on the information contained or incorporated by reference in this prospectus, the applicable prospectus supplement and the applicable pricing supplement. None of us, PFG, any trust or any of our or their respective agents or dealers has authorized any other person to provide you with different or additional information. If anyone provides you with different information, you should not rely on it. None of us, PFG, any trust or any of our or their respective agents or dealers is making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, the applicable prospectus supplement or the applicable pricing supplement, as well as information PFG previously filed with the SEC and incorporated by reference, is accurate only as of the date on the front cover of those documents or the date those documents were filed with the SEC, as applicable. Our and PFG’s business, financial condition, results of operations and prospects may have changed since that date. For more detail on the terms of the notes, you should read the exhibits filed with or incorporated by reference in our registration statement.

## RISK FACTORS

Your investment in the notes will involve certain risks. This prospectus and the accompanying prospectus supplement contain all of the risks that we believe are material to an investment in the notes.

In consultation with your own financial, accounting and legal advisors, you should carefully consider the information included in or incorporated by reference in this prospectus, the accompanying prospectus supplement and the applicable pricing supplement, and pay special attention to the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase notes unless you understand, and know that you can bear, these investment risks.

Because the applicable trust will rely on the payments that the trust receives on the funding agreement (or the related guarantee) to fund all payments on the related notes, you are making an investment decision regarding the funding agreement and the related guarantee as well as the related notes. You should carefully review the information in this prospectus, the accompanying prospectus supplement and the related pricing supplement about the notes, the funding agreement and the related guarantee.

### Risk Factors Relating to Each Trust

***Each trust has limited resources and therefore each trust's ability to make timely payments with respect to its series of notes will depend on our making payments under the related funding agreement or PFG making payments under the related guarantee***

The principal assets of each trust will be a funding agreement (a "funding agreement") issued by us and a related full and unconditional guarantee (a "guarantee") issued by PFG of our payment obligations under the funding agreement. Although the trust will purchase the funding agreement relating to a particular series of notes, the trust will grant a security interest in and collaterally assign the funding agreement to the indenture trustee and the trust will collaterally assign and grant a security interest in the related guarantee to the indenture trustee, in each case for the benefit of the holders of the related series of notes to secure the trust's obligations under that series of notes. Accordingly, each series of notes will be secured by a funding agreement and the related guarantee, together with all of the proceeds in respect of, all amounts and instruments on deposit from time to time in the relevant collection account and all of the books and records pertaining to, such funding agreement and related guarantee and all of the trust's rights thereto, which we collectively refer to in this prospectus as the "collateral". The debts, liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to a particular trust will be enforceable against only the assets held in such trust and not against the assets of any other trust, us or PFG. No series of notes will have any right to receive payments from the collateral related to any other series of notes issued by another trust or from our assets or PFG's assets.

The ability to receive payments on a series of notes will principally depend on payments under each related funding agreement and the related guarantee. Accordingly, the applicable trust will only be able to make timely payments with respect to a series of notes if we have made all required payments under the funding agreement securing the related series of notes or, if we fail to make such payments, PFG has made all required payments under the related guarantee. See "— Risk Factors Relating to the Collateral" below in this prospectus.

***The notes are the obligations of the applicable trust only and are not obligations of, or guaranteed by, us, PFG or any of our or its affiliates***

The notes will not be obligations of, and will not be guaranteed by, us, PFG or any of our or its respective subsidiaries or affiliates. Except for our payment obligations under the funding agreement and the expense and indemnity agreements and the full and unconditional guarantee of our payment obligations under the funding agreement by PFG, none of us, PFG, U.S. Bank Trust National Association, as trustee (the "trustee") or GSS Holdings II, Inc., as trust beneficial owner (the "trust beneficial owner") is under any obligation to provide funds or capital to the trust. In addition, the notes will not benefit from any insurance guarantee fund coverage or any similar protection. Each trust has no net worth as of the date of this prospectus, and the net worth of each trust will be approximately \$15 at inception, unless otherwise specified in the applicable pricing supplement. The net worth of each trust is not expected to increase materially.

***Each trust has no prior operating history***

Each trust exists solely to:

- issue and sell, from time to time, one series of notes to investors;
- use the net proceeds from the sale of its series of notes to acquire a funding agreement from us and a related guarantee from PFG;
- collaterally assign and grant a security interest in the applicable funding agreement, and collaterally assign and grant a security interest in the applicable guarantee, in favor of the indenture trustee; and
- engage in other activities necessary or incidental thereto.

Each trust has no prior operating history.

**Risk Factors Relating to the Notes**

***The notes are non-recourse obligations of the applicable trust and your claims as a holder of a series of notes are limited to the amount of the applicable collateral***

The notes of a series are payable only from the collateral held as security for notes of a series by the relevant trust. If any event of default occurs under any series of notes, the rights of the holders of the series of notes and the indenture trustee, acting on behalf of such holders, will be limited to a proceeding against the applicable collateral. None of the holders of the affected notes or the indenture trustee, acting on behalf of such holders, will have the right to proceed against the collateral related to any other series of notes issued by another trust. Furthermore, no holder or the indenture trustee, acting on behalf of such holder, will have the ability to proceed against any of us, PFG, our or its officers, directors, affiliates, employees or agents or any of the applicable trust's trustees, beneficial owner or agents, or any of their respective officers, directors, affiliates, employees or agents except with respect to enforcing obligations under the funding agreement against us and the guarantee of our payment obligations under that funding agreement against PFG. All claims of the holders of a series of notes in excess of amounts received from the related collateral will be extinguished.

***Noteholders will not have any direct contractual rights against us under the applicable funding agreement or against PFG under the related guarantee***

The funding agreement issued by us to the applicable trust will be a contractual obligation between us and that trust. Once the trust collaterally assigns and grants a security interest in all of its rights and privileges in the funding agreement to the indenture trustee for the benefit of the holders of the related series of notes to secure the trust's obligations under such series of notes, the indenture trustee will be the only party with recourse rights against us under the funding agreement. Subject to certain conditions in the indenture, however, holders of the applicable series of notes representing a majority in aggregate principal amount of the outstanding notes of such series have the right to direct the time, method and place of conducting any proceedings for exercising any remedy available to the indenture trustee in respect of such series of notes, including with respect to the related funding agreement. See "Description of the Notes — Nonrecourse Enforcement."

The guarantee issued by PFG to the trust will be a contractual obligation between PFG and that trust. Once that trust collaterally assigns and grants a security interest in all of its rights and privileges in the guarantee to the indenture trustee for the benefit of the holders of the related series of notes to secure its obligations under such notes, the indenture trustee will be the only party with recourse rights against PFG under the guarantee. Subject to certain conditions in the indenture, however, holders of the applicable series of notes representing a majority in aggregate principal amount of the outstanding notes of such series have the right to direct the time, method and place of conducting any proceedings for exercising any remedy available to the indenture trustee in respect of such series of notes, including with respect to the related guarantee. See "Description of the Notes — Nonrecourse Enforcement."

***An event of default under the notes may not constitute an "event of default" under the applicable funding agreement and the applicable guarantee***

In certain circumstances an event of default under a series of notes may not constitute an event of default under the applicable funding agreement and the applicable guarantee.

## Table of Contents

To the extent that:

- the trust fails to observe or perform in any material respect any covenant contained in the indenture or its series of notes;
- the indenture ceases to be in full force and effect or the indenture trustee's security interest in the collateral is successfully challenged or is determined to be defective; or
- the trust or the collateral is subject to certain actions under applicable bankruptcy, insolvency or other similar laws or any receivership, liquidation, dissolution or other similar action or the trust is unable to pay its debts;

it is possible that the trust's obligations under any series of notes may be accelerated while our obligations under the funding agreement and PFG's obligations under the related guarantee may not be similarly accelerated. If this occurs, scheduled payments under the funding agreement would not be accelerated and the indenture trustee may have no or limited ability to proceed against the funding agreement and the related guarantee and holders of the trust's notes may not be paid in full, or in a timely manner upon such acceleration. See "Description of the Notes — Events of Default" and "Description of the Funding Agreements" in this prospectus and "Risk Factors — Risk Factors Relating to the Notes — Ratings of our programs and any rated series of notes may not reflect all risks of an investment in the notes and may change in accordance with our financial strength rating."

### ***As a result of withholding, payments under the funding agreement and the related guarantee may be insufficient to pay principal and interest under the notes***

Payments of the principal of and interest on a series of notes will be made solely from the payments the trust receives under the funding agreement or, if we fail to make such payments, the payments the trust receives under the related guarantee. Unless otherwise specified in the applicable prospectus supplement or pricing supplement, we or PFG will not pay any additional amounts in respect of a funding agreement to compensate for any withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or governmental charges of whatever nature imposed or levied on payments in respect of a funding agreement, by or on behalf of any governmental authority, and each holder of a note of the related series of notes will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such holder's interest in the notes, as equitably determined by the trust. Under this circumstance, the trust will not actually pay, or cause to be paid, to such holder all of the amounts which would have been receivable by such holder in the absence of such taxes, duties, levies, assessments or other governmental charges. Any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem the affected funding agreement or the related series of notes.

### ***The notes could be deemed to be contracts of insurance or participations in the related funding agreement which could subject holders of the notes to certain regulatory requirements and reduce the marketability and market value of the notes***

The laws and regulations of the 50 states of the United States and the District of Columbia (the "covered jurisdictions") contain broad definitions of the activities that may constitute the business of insurance or the distribution of insurance products. Because the primary asset of the relevant trust will be a funding agreement issued by us, it is possible that insurance regulators in one or more jurisdictions could take the position that (i) the issuance of notes by the trust, or the performance of the trust's obligations under the notes, including the payment or prepayment of amounts due under the notes, constitutes the indirect issuance of a funding agreement or other insurance product, and (ii) the distribution, transfer, sale, resale or assignment of the notes of a series constitutes the production or sale of a funding agreement or other insurance product. If such a position were to be taken in any covered jurisdiction, the underlying activity and the person conducting such activity (including the relevant trust, us, any underwriter, dealer or agent, an investor or any other person) could become subject to regulation under the insurance laws of one or more of the covered jurisdictions, which could, among other effects, require such persons to be subject to regulatory licensure or other qualification and levels of compliance that cannot practically be achieved. Failure to comply with such requirements could subject such persons to regulatory penalties. In addition, any such failure to comply or the threat of any such regulation could reduce liquidity with respect to the notes, prevent an investor from transferring notes and reduce the marketability and market value of the notes. Any financial penalty assessed against the relevant trust could affect its ability to pay amounts due under the notes. Therefore, any such regulation or threat of such regulation



## Table of Contents

by any one or more covered jurisdictions could result in an investor being unable to liquidate its investment in the notes, or, upon any such liquidation, receiving a value significantly less than the initial investment in the notes.

We believe that the notes will not be considered to be funding agreements, insurance or annuity policies or contracts or any other products regulated under the insurance laws of the covered jurisdictions and the trust will not be deemed to be engaging in the business of insurance in such jurisdictions solely as a result of such offer or sale of the notes.

There are wide variations in the insurance laws of the covered jurisdictions, subtle nuances in their application and a general absence of any consistent pattern of interpretation or enforcement with respect to the subject regulatory issues. Insurance regulatory authorities have broad discretionary powers in administering and interpreting the insurance laws of their respective jurisdictions. Any such regulatory interpretation is not necessarily binding on any state or federal court. Any such insurance regulatory authorities or courts could take positions contrary to our beliefs described above. Accordingly, there can be no assurance that the purchase, resale, transfer or assignment of the notes will not subject the parties to such transaction to regulation or enforcement proceedings under the insurance laws of one or more covered jurisdictions, which could result in fines, penalties and other civil and criminal enforcement actions, as well as prohibiting the transfer or effectiveness of the notes without compliance with appropriate insurance licensing and other laws.

### ***Any survivor's option may be subject to certain limitations***

Under our program targeted to retail investors, we have the discretionary right to limit the aggregate principal amount of:

- all funding agreements securing all outstanding series of notes issued under our program targeted to retail investors as to which exercises of any put option by any trust shall be accepted by us in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the aggregate principal amount of all funding agreements securing all outstanding series of notes issued under our program targeted to retail investors as of the end of the most recent calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement;
- the funding agreements securing the notes as to which exercises of any put option by the applicable trust attributable to notes as to which the survivor's option has been exercised by the authorized representative of any individual deceased beneficial owner to \$250,000 in any calendar year or such other greater amount as determined in accordance with the applicable funding agreement and set forth in the applicable pricing supplement; and
- the funding agreement securing a series of notes as to which exercises of any put option by the applicable trust shall be accepted in any calendar year to an amount as set forth in the applicable funding agreement and the applicable pricing supplement.

In any such event, a trust shall similarly be required to limit the aggregate principal amount of notes as to which exercises of the survivor's option shall be accepted by the trust. Accordingly, no assurance can be given that the exercise of the survivor's option for a desired amount will be accepted as to any series of notes or in any single calendar year.

### ***Redemption may adversely affect your return on the notes***

If the funding agreement related to your notes is redeemable at our option, including our right to redeem such funding agreement if we are, or a material probability exists that we will be, if specified in the circumstances set forth in the relevant pricing supplement, required to pay additional amounts in connection with any withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or governmental charges of whatever nature imposed or levied on payments in respect of such funding agreement or the notes such funding agreement secures, by or on behalf of any governmental authority, or upon the occurrence of a "tax event" (as defined under "Description of the Funding Agreements — Early Redemption for Tax Event"), the trust will redeem your notes if we choose to redeem the related funding agreement. Prevailing interest rates at the time the trust redeems your notes may be lower than the rate borne by the notes as of their original issue date. In such a case, you generally will not be able to reinvest the redemption proceeds in a

## [Table of Contents](#)

comparable security at an effective interest rate as high as your notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes.

### ***There may not be any trading market for your notes and many factors affect the trading and market value of your notes***

Upon issuance, a series of notes will not have an established trading market. We cannot assure you a trading market for your notes will ever develop or be maintained if developed. In addition to the trust's, PFG's and our creditworthiness, many factors affect the trading market for, and trading value of, your notes. These factors include:

- the complexity and volatility of the formula applicable to the interest rate borne by your notes;
- the method of calculating the principal, premium and interest in respect of your notes;
- the time remaining to the maturity of your notes;
- the outstanding amount of the applicable series of notes;
- any redemption or repayment features of your notes;
- the amount of other debt securities linked to the formula applicable to your notes; and
- the level, direction and volatility of market interest rates generally.

There may be a limited number of buyers if you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all. In addition, notes that are designed for specific investment objectives or strategies often experience a more limited trading market and more price volatility than those not so designed. You should not purchase notes unless you understand and know you can bear all of the investment risks associated with your notes.

### ***If the trust issues notes denominated in a foreign currency, those notes are subject to exchange rate and exchange control risks***

If you invest in notes that are denominated and/or payable in a currency other than U.S. dollars, which we refer to in this prospectus and the accompanying prospectus supplement as "foreign currency notes," you will be subject to significant risks not associated with an investment in a debt security denominated and payable in U.S. dollars. The risks include but are not limited to:

- the possibility of significant market changes in rates of exchange between U.S. dollars and the specified currency;
- the possibility of significant changes in rates of exchange between U.S. dollars and the specified currency resulting from official redenomination relating to the specified currency; and
- the possibility of the imposition or modification of foreign exchange controls by either the United States or foreign governments.

The existence, magnitude and longevity of these risks generally depend on factors over which none of the trust, we or PFG has any control and which cannot be readily foreseen, such as:

- economic events;
- political and regulatory events; and
- financial events, such as the supply of, and demand for, the relevant currencies.

Moreover, if payments on your foreign currency notes are determined by reference to a formula containing a multiplier or leverage factor, the effect of any change in the exchange rates between the applicable currencies will be magnified. In recent years, exchange rates between certain currencies have been highly volatile and volatility between these currencies or with other currencies may be expected in the future. Fluctuations between currencies in the past are not necessarily indicative, however, of fluctuations that may occur in the future. Depreciation of your payment currency would result in a decrease (1) in the U.S. dollar equivalent yield of your foreign currency notes, (2) in the U.S. dollar equivalent value of the principal and any premium payable at maturity or any earlier redemption of your foreign currency notes and (3) generally in the U.S. dollar equivalent market value of your foreign currency notes.

## [Table of Contents](#)

Governments have imposed from time to time, and may in the future impose, exchange controls that could affect exchange rates as well as the availability of a specified currency other than U.S. dollars at the time of payment of principal, any premium or interest on a foreign currency note. Governments may use a variety of techniques, such as intervention by a country's central bank, the imposition of regulatory controls or taxes or changes in interest rates to influence the exchange rates of their currencies. Governments may also alter the exchange rate or relative exchange characteristics by a devaluation or revaluation of a currency. There can be no assurance that exchange controls will not restrict or prohibit payments of principal, any premium or interest denominated in any such specified currency.

Even if there are no actual exchange controls, it is possible that the specified currency would not be available to us when payments on a funding agreement is due because of circumstances beyond our control. In this event, we will make required payments in U.S. dollars on the basis described in the accompanying prospectus supplement or the applicable pricing supplement. You should consult your own financial and legal advisors as to the risks of an investment in notes denominated in a currency other than U.S. dollars.

The information set forth in this prospectus and the accompanying prospectus supplement is directed to prospective purchasers of notes who are United States residents. The trust, we and PFG disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States regarding any matters that may affect the purchase or holding of, or receipt of payments of principal of, or premium or interest on, notes. Such persons should consult their advisors with regard to these matters.

### ***Ratings of our programs and any rated series of notes may not reflect all risks of an investment in the notes and may change in accordance with our financial strength rating***

In the event that the programs generally or a specific series of notes is rated by a rating agency, the ratings of the programs or such notes will primarily reflect our financial strength and will change in accordance with our financial strength rating and with any change in the priority status of funding agreement obligations under Iowa law. Any rating is not a recommendation to purchase, sell or hold any particular security, including the notes. Such ratings do not comment as to the market price or suitability of the notes for a particular investor. In addition, there can be no assurance that a rating will be maintained for any given period of time or that a rating will not be lowered or withdrawn in its entirety. The ratings of our secured medium-term notes program and our program targeted to retail investors and any rated series of notes issued under these programs may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, your notes.

### ***An increase in market interest rates could result in a decrease in the value of any notes bearing interest at a fixed rate***

If market interest rates increase above the interest rate of fixed rate notes, then fixed rate notes generally decline in value because debt instruments of the same face value priced at market interest rates will yield higher income. Consequently, if you purchase fixed rate notes and market interest rates increase above the fixed interest rate on the notes you have purchased, the market value of your notes may decline. Neither we nor PFG can give any assurance regarding the future level of market interest rates.

### ***If you purchase discount notes, the amount payable to you upon early redemption, repayment or acceleration of these notes may be less than the principal amount (i.e., par) of the notes plus accrued but unpaid interest and premium, if any***

If you purchase discount notes, the amount payable to you upon early redemption, repayment or acceleration of these notes may be less than the principal amount thereof plus accrued and unpaid interest. The amount payable will be determined by the formula set forth in the applicable prospectus supplement or pricing supplement.

## **Risk Factor Relating to the Collateral**

***The funding agreements are our unsecured obligations, the payment obligations of which are fully and unconditionally guaranteed by PFG. If the funding agreements were not accorded Class 2 priority, they would be accorded the same priority in our insolvency as our other general unsecured obligations. In the event of our insolvency, PFG may not be able to satisfy its obligations under the guarantees***

The funding agreements are our unsecured obligations and, in the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Sidley Austin Brown & Wood LLP, counsel to us and PFG, has opined that, subject to the limitations, qualifications and assumptions set forth in its opinion letter, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders.

Sidley Austin Brown & Wood LLP has advised that its opinion is based on its interpretation of the relevant provisions of the Iowa Code as construed by relevant administrative and judicial authority. However, the Iowa Code and regulations, interpretations and decisions are subject to change, either prospectively or retroactively, and many of the issues addressed in counsel's opinion depend upon a facts and circumstances analysis that has received little or no administrative or judicial consideration. Therefore, the Iowa Insurance Commissioner, in his/her capacity as liquidator, rehabilitator or otherwise, or the courts could disagree in whole or in part with our analysis.

In the event that a funding agreement were not accorded Class 2 priority in our insolvency, the funding agreement would be accorded the lower priority associated with our general unsecured obligations, which would adversely affect the ability of the applicable trust to recover any claims of principal and interest in respect of such funding agreement. See "Description of the Funding Agreements — Priority."

Iowa law would apply to our insolvency or receivership proceedings. Investors should note, however, that the statutory liquidation priority accorded to funding agreements under Iowa law does not clearly apply to any additional amounts required to be paid (if specified in the applicable pricing supplement) as may be necessary in order that the net amounts receivable by a holder after any withholding or deduction under United States tax law shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction. Accordingly, claims for such payments, if any, may not rank equally with either life insurance policy and annuity claims or funding agreement claims, and may rank with our unsecured debt obligations, which would adversely affect the ability of the applicable trust to recover any claims of additional amounts in respect of such funding agreement. See "Description of the Funding Agreements."

Each guarantee will be issued by PFG, our indirect parent company. We represent a substantial portion of the assets of PFG. In the event of our insolvency or receivership, PFG may incur limitations in receiving any distributions from us. In such an event, PFG may have limited resources to satisfy its obligations under the guarantees.

## **Risk Factors Relating to PFG**

***PFG's efforts to reduce the impact of interest rate changes on its profitability and financial condition may not be effective***

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

## Table of Contents

During periods of declining interest rates, borrowers may prepay or redeem mortgages and bonds that PFG owns, which would force PFG to reinvest the proceeds at lower interest rates. For some of PFG's products, such as guaranteed investment contracts and funding agreements, PFG is unable to lower the rate it credits to customers in response to the lower return it will earn on its investments. In addition, it may be more difficult for PFG to maintain its desired spread between the investment income it earns and the interest it credits to its customers during periods of declining interest rates thereby reducing PFG's profitability.

Changes in interest rates can also significantly affect the profitability of PFG's mortgage banking operations. During periods of declining interest rates, PFG may lose mortgage loan servicing fees due to an increase in mortgage loan refinancing activity. During periods of rising interest rates, PFG may suffer a loss of mortgage loan origination fees due to a decrease in the overall number of home sales and the number of mortgage loan refinancings.

### ***A downgrade in any of our ratings may, among other things, increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, any of which could adversely affect PFG's profitability and financial condition***

Ratings are important factors in establishing the competitive position of insurance companies. A downgrade, or the potential for such a downgrade, of any of our ratings could, among other things:

- materially increase the number of policy or contract surrenders for all or a portion of their net cash values and withdrawals by policyholders of cash values from their policies;
- result in the termination of relationships with broker-dealers, banks, agents, wholesalers and other distributors of PFG's products and services;
- reduce new sales, particularly with respect to general account guaranteed investment contracts and funding agreements purchased by pension plans and other institutions; and
- cause some of PFG's existing liabilities to be subject to acceleration, additional collateral support, changes in terms or creation of additional financial obligations.

Any of these consequences could adversely affect PFG's profitability and financial condition.

### ***PFG's investment portfolio is subject to several risks that may diminish the value of its invested assets and adversely affect its sales, profitability and the investment returns credited to its customers***

PFG's investment portfolio is subject to several risks, including, among other things:

- An increase in defaults or delinquency on PFG's investment portfolio, including its commercial mortgage loan portfolio.
- PFG may have greater difficulty selling its privately placed fixed maturity securities, commercial mortgage loans and real estate investments at attractive prices, in a timely manner, or both, because they are less liquid than its publicly traded fixed maturity securities.
- Derivative instruments may not be honored by counterparties resulting in ineffective hedging of PFG's risks.
- Environmental liability exposure may result from PFG's commercial mortgage loan portfolio and real estate investments.
- Regional concentration of PFG's commercial mortgage loan portfolio may subject PFG to economic downturns or losses attributable to natural disasters in these regions.

Any of these consequences may diminish the value of PFG's invested assets and adversely affect its sales, profitability or the investment returns credited to its customers.

### ***Changes in regulation in the United States may reduce PFG's profitability***

PFG's insurance business is subject to comprehensive state regulation and supervision throughout the United States. The primary purpose of state regulation of the insurance business is to protect policyholders, and not necessarily to protect other constituencies such as creditors or investors. State insurance regulators and the National Association of Insurance Commissioners continually reexamine existing laws and regulations and may impose changes in the future. Changes in federal legislation and administrative policies in areas such as

[Table of Contents](#)

employee benefit plan regulation, financial services regulation and federal taxation could result in increased exposure on outstanding products or reduced sales of new products and therefore, could reduce PFG's profitability.

## FORWARD LOOKING INFORMATION

This prospectus, any prospectus supplement, any pricing supplement and the information incorporated by reference in such documents may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are intended to enhance the reader's ability to assess the future financial performance of PFG, as our indirect parent company and the guarantor of our payment obligations under the funding agreement that will secure the related series of notes. Forward-looking statements include, but are not limited to, statements that represent beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "anticipate," "believe," "plan," "estimate," "expect," "intend," "would," "should" and similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on PFG. Such forward-looking statements are not guarantees of future performance. The safe harbors contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, do not apply to us or the trusts.

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 PFG's net income, revenues and assets under management; (2) PFG's investment portfolio is subject to several risks which may diminish the value of invested assets and affect its sales, profitability and the investment returns credited to its customers; (3) competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair PFG's ability to retain existing customers, attract new customers and maintain its profitability; (4) a downgrade in our financial strength ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors and cause some of PFG's existing liabilities to be subject to acceleration, additional collateral support, changes in terms or creation of additional financial obligations; (5) PFG's efforts to reduce the impact of interest rate changes on its profitability and surplus may not be effective; (6) if PFG is unable to attract and retain sales representatives and develop new distribution sources, sales of its products and services may be reduced; (7) PFG's international businesses face political, legal, operational and other risks that could reduce its profitability in those businesses; (8) PFG reserves established for future policy benefits and claims may prove inadequate, requiring it to increase liabilities; (9) PFG's ability to pay stockholder dividends and meet its obligations may be constrained by the limitations on dividends Iowa insurance laws impose on us; (10) PFG may need to fund deficiencies in our closed block ("Closed Block") assets which benefit only the holders of Closed Block policies; (11) changes in laws, regulations or accounting standards may reduce the profitability of PFG; (12) litigation and regulatory investigations may harm PFG's financial strength and reduce its profitability; (13) fluctuations in foreign currency exchange rates could reduce PFG's profitability; (14) applicable laws and PFG's stockholder rights plan, certificate of incorporation and by-laws may discourage takeovers and business combinations that PFG's stockholders might consider in their best interests; and (15) a downgrade in PFG's debt ratings may adversely affect PFG's ability to secure funds and cause some of its existing liabilities to be subject to acceleration, additional collateral support, changes in terms or creation of additional financial obligations.

You should not place undue reliance on these forward-looking statements, which speak only as of their dates. Except as required by the federal securities laws, we, PFG, each trust, and our or their respective agents and dealers shall not undertake any obligation to update or review forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time.

## WHERE YOU CAN FIND MORE INFORMATION

This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement. Parts of the registration statement are omitted from this prospectus in accordance with the rules and regulations of the SEC. The registration statement, including the attached exhibits, contains additional relevant information about us, PFG and the trusts. PFG is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in compliance with such laws, PFG files annual, quarterly and current reports, proxy statements and other information with the SEC. You can read and copy any reports or other information PFG files at the SEC public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can also request copies of PFG's documents upon payment of a duplicating fee, by writing the SEC's public reference room. You can obtain information regarding the public reference room by calling the SEC at 1-800-SEC-0330. PFG filings are available to the public from commercial document retrieval services and over the internet at <http://www.sec.gov>. (This uniform resource locator (URL) is an inactive textual reference only and is not intended to incorporate the SEC web site into this prospectus.)

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us and PFG to "incorporate by reference" information that PFG files with the SEC into this prospectus and any accompanying prospectus supplement and pricing supplement, which means that incorporated documents are considered part of this prospectus and any accompanying prospectus supplement and pricing supplement. We and PFG can disclose important information to you by referring you to those documents. Information that PFG files with the SEC will automatically update and supercede the information in this prospectus and any accompanying prospectus supplement and pricing supplement.

This prospectus and any accompanying prospectus supplement and pricing supplement incorporate by reference the following document:

- PFG's Annual Report on Form 10-K for the year ended December 31, 2003.

This prospectus and any accompanying prospectus supplement and pricing supplement also incorporate by reference all documents that we, on behalf of ourselves or the trusts, as depositor, or PFG file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of the notes. These documents contain important information about the trusts and PFG and their finances, respectively.

You may also request a copy of any documents incorporated by reference in this prospectus and any accompanying prospectus supplement and pricing supplement (including any exhibits that are specifically incorporated by reference in them), at no cost, by writing or telephoning the following addresses or telephone numbers:

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392-0001  
Attention: Amy Wiseman  
Telephone: (800) 986-3343

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392-0001  
Attention: Amy Wiseman  
Telephone: (800) 986-3343



## USE OF PROCEEDS

Each trust will use the net proceeds from the issuance of its series of notes to the public and the trust beneficial interest to the trust beneficial owner to purchase a funding agreement issued to, and deposited into, that trust by us. We intend to use the net proceeds from the sale to the trust of the funding agreement to purchase investment assets. We expect such assets, and our other general account assets, will generate investment income in excess of amounts payable under the funding agreement.

## RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth, for the years and periods indicated, PFG's ratios of:

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

PFG calculates 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:  $(BT+I+IF-E)/(I+IF+D)$ .

PFG calculates 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, medium-term notes and other investment-only pension products. Similar to debt, these products have a total fixed return and a fixed maturity date.

	For the Year Ended December 31,				
	2003	2002	2001	2000	1999
Ratio of earnings to fixed charges before interest credited on investment products	9.5	7.2	5.2	7.1	7.2
Ratio of earnings to fixed charges	2.1	1.8	1.5	1.9	2.1

**PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL FINANCIAL GROUP, INC.**

PFG is a leading provider of retirement savings, investment and insurance products and services and has \$144.9 billion in assets under management and approximately 15.0 million customers as of December 31, 2003. PFG focuses on providing retirement products and services to businesses and their employees. Based on total plans served in 2002, more employers choose PFG for their 401(k) plans than any other bank, mutual fund or insurance company in the United States, according to CFO magazine, April/ May 2003.

PFG provides financial products and services through the following four segments: (1) U.S. Asset Management and Accumulation, which provides retirement and related financial products and services primarily to businesses, their employees and other individuals and provides asset management services to PFG's asset accumulation business, the life and health insurance operations, the Corporate and Other segment and third-party clients; (2) International Asset Management and Accumulation, which provides retirement products and services, annuities, long-term mutual funds and life insurance through subsidiaries and joint ventures in various countries; (3) Life and Health Insurance, which provides individual and group life insurance, group health insurance and individual and group disability insurance throughout the United States; and (4) Mortgage Banking, which originates and services residential mortgage loan products for customers in the United States. PFG markets these products and services through career agents, brokers, financial institutions, employee-benefit consultants, financial planners, direct marketing to existing customers and a variety of representatives. PFG also has a Corporate and Other segment, which manages the assets representing capital that has not been allocated to any other segment.

PFG life insurance in force, net of reinsurance, was \$136.5 billion as of December 31, 2003, and \$137.8 billion as of December 31, 2002. As of December 31, 2003 and 2002, PFG total invested assets were \$55.6 billion and \$49.0 billion, respectively; its separate account assets were \$43.4 billion and \$33.5 billion, respectively; and its stockholders' equity was \$7.4 billion and \$6.7 billion, respectively. PFG net income for the years ended December 31, 2003, 2002 and 2001 was \$746.3 million, \$142.3 million, and \$358.8 million, respectively.

We are an indirect, wholly-owned subsidiary of PFG and are the 8th largest United States life insurance company based on December 31, 2002 statutory total assets (based on individual company rankings) according to data provided by Insurance Research Group, Inc.

We were organized as an individual life insurer in 1879, and formed a mutual insurance holding company in 1998. On July 1, 1998, Principal Mutual Life Insurance Company converted to a mutual holding company structure, changed its name to Principal Life Insurance Company and created Principal Mutual Holding Company, a mutual insurance holding company, and Principal Financial Services, Inc. ("PFS"), an intermediate holding company.

Consistent with Iowa law in a process sometimes referred to as a "demutualization", Principal Mutual Holding Company, under the terms of its plan of conversion, converted from a mutual insurance holding company to a stock company subsidiary of PFG, a Delaware business corporation, effective October 26, 2001. All membership interests in Principal Mutual Holding Company were extinguished on that date and eligible policyholders received compensation in the form of common stock, cash or policy credits. In aggregate, 260.8 million shares of common stock, \$1,177.5 million of cash and \$472.6 million of policy credits were distributed.

After giving effect to the reorganization resulting from the demutualization, we are now a direct wholly-owned subsidiary of PFS, which, in turn, is a direct wholly-owned subsidiary of PFG.

[Table of Contents](#)

On October 26, 2001, PFG completed its initial public offering (“IPO”) in which it issued 100.0 million shares of common stock at a price of \$18.50 per share, prior to the underwriters’ exercise of their overallotment option. Net proceeds from the IPO were \$1,753.9 million, of which \$64.2 million was retained by PFG, and \$1,689.7 million was contributed to us principally to fund demutualization compensation to policyholders receiving cash or policy credits and to cover certain expenses related to the demutualization. Proceeds were net of offering costs of \$96.5 million and a related tax benefit of \$0.4 million.

## DESCRIPTION OF THE TRUSTS

The following is a general description of the trusts and the material provisions of the standard trust terms which will be incorporated into each trust agreement and other related documents governing the trusts. The trust agreement is included in the form of omnibus instrument. This summary is not intended to be a full restatement of all of the terms of the standard trust terms or the trust agreement and is subject to the detailed provisions of such documents. Copies of the standard trust terms and the form of omnibus instrument (including the form of trust agreement) have been filed as exhibits to the registration statement (which includes this prospectus) and are incorporated into this prospectus by reference. Executed copies of the applicable trust agreement may be inspected during normal business hours at our principal executive offices set forth on the cover page of this prospectus.

### General

A separate trust will be created for each series of notes. Each trust will be a separate and distinct special purpose common law trust formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement. Each trust will be organized pursuant to, and governed by, a trust agreement, dated as of the date of the applicable pricing supplement, between the trustee and the trust beneficial owner. The trust agreement will adopt and incorporate the standard trust terms in its entirety. With respect to a particular trust, we refer to the applicable trust agreement and the standard trust terms as the “trust agreement.” The assets and liabilities of each trust will be separate and distinct from the assets and liabilities of every other trust, us and PFG.

In connection with the issuance of a series of notes by a trust:

- a separate and distinct trust will be formed pursuant to a trust agreement, which adopts and incorporates the standard trust terms in its entirety;
- the trust will acquire a funding agreement issued by us, the payment obligations of which will be fully and unconditionally guaranteed by a guarantee issued by PFG to the trust; and
- the trust will collaterally assign and grant a security interest in the related funding agreement and collaterally assign and grant a security interest in the related guarantee in favor of the indenture trustee for the benefit of the holders of notes of the applicable series.

Each trust’s principal executive offices will be located at c/o U.S. Bank Trust National Association, 100 Wall Street, 16th Floor, New York, New York 10005 and its telephone number is (212) 361-2458.

### Nature of Each Trust

The trust agreement provides that each trust will be a separate and distinct special purpose common law trust formed in a jurisdiction located in the United States of America specified in the applicable pricing supplement.

The applicable series of notes and the liabilities, obligations and expenses related to such series of notes will constitute debt, liabilities, obligations and expenses incurred, contracted for or otherwise of the applicable trust.

As separate and distinct special purpose trusts, the debts, liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to a particular trust will be enforceable only against the assets of such trust and not against the assets of any other trust, us or PFG. In addition, none of the debts, liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to us, PFG or any trust will be enforceable against the assets of any other trust. See “Description of the Notes — Nonrecourse Enforcement.”

### **Application of Money Received by the Trustee on Behalf of a Trust**

Except for payments made in connection with the liquidation of a trust, all monies and other property received by the trustee on behalf of a trust shall be distributed as follows:

*first*, to the indenture trustee for the payment of all amounts then due and unpaid upon the applicable notes, if any, in accordance with the applicable indenture; and

*second*, to the trust beneficial owner for the payment of all amounts that would be payable to the trust beneficial owner if the trust beneficial owner held a note with an original principal amount of \$15 (multiplied by the issue price of the related notes in the case of discount notes); any remaining monies and other property shall be distributed ratably in proportion to their original principal amounts to the holders of notes last noted in the register as the holders of the notes and trust beneficial owner (as if the trust beneficial owner held a note with an original principal amount of \$15 (multiplied by the issue price of the related notes in the case of discount notes)).

Upon the liquidation of a trust, the remaining collateral and any other assets held in the trust shall be liquidated, and the trust shall be wound-up by the trustee in accordance with the trust agreement. In such event, (i) the trust shall first pay all amounts due and unpaid on the notes, if any, in accordance with the applicable indenture, (ii) the trust shall then pay any other claims, including expenses relating to such liquidation to the extent not paid, or reasonably provided for, pursuant to the applicable expense and indemnity agreement, and (iii) the trust shall then pay to the trust beneficial owner all amounts that would be payable under the indenture to the trust beneficial owner if the trust beneficial owner held a note with an original principal amount of \$15 (multiplied by the issue price of the related notes in the case of discount notes). Any remaining monies and other property shall be paid ratably in proportion to their original principal amounts to the holders last noted in the register as the holders of the notes and the trust beneficial owner (as if the trust beneficial owner held a note with an original principal amount of \$15 (multiplied by the issue price of the related notes in the case of discount notes) and as if each such holder continued to hold its notes after all amounts due on such notes under the indenture have been paid).

### **The Trustee**

Pursuant to the trust agreement, the trustee is acting as the sole trustee of the applicable trust. The trustee will conduct the activities of the trust.

### **The Trust Beneficial Owner**

GSS Holdings II, Inc. as the trust beneficial owner will be the sole beneficial owner of each trust. The beneficial interest in each trust:

- will be purchased by the trust beneficial owner for \$15 (or in the case of a trust that issues discount notes, such other amount as corresponds to the discount on such notes);
- will be issued in book-entry form only;
- will entitle the trust beneficial owner to receive payment in respect thereof on the same terms as the payments to be made to holders of the related series of notes; and
- will be subordinated to the related series of notes and will not be secured by the collateral.

The trust beneficial owner will receive periodic distributions on its beneficial interest at the same rate and on the same day that holders of notes of the related series of notes receive interest payments. On the maturity date of the trust beneficial owner's beneficial interest and the related series of notes, the trust will redeem the principal amount of the related series of notes and the principal amount of the trust beneficial interest.

## [Table of Contents](#)

### **No Affiliation**

None of us, PFG or any of our or its officers, directors, subsidiaries or affiliates owns any beneficial interest in any trust nor has any of these persons or entities entered into any agreement with any trust other than in furtherance of the issuance of notes from time to time as contemplated by this prospectus.

None of us, PFG or any of our or its officers, directors, subsidiaries or affiliates is affiliated with the trustee, the trust beneficial owner or the indenture trustee relating to the notes.

### **Recordkeeping**

Each trust will:

- maintain separate and distinct records; and
- hold and account for the assets associated with each such trust separately from the assets of any other trust, us or PFG.

On behalf of the trusts, as depositor, we will be subject to certain reporting requirements under the Securities Exchange Act of 1934, as amended.

### **Expenses**

We have entered into a separate expense and indemnity agreement with each of the indenture trustee, the custodian (see “Description of the Notes — Collateral”), the trust beneficial owner and the trustee (on behalf of itself and each trust to be formed in connection with the issuance of a series of notes). We will enter into an expense and indemnity agreement with additional service providers appointed from time to time. Under each expense and indemnity agreement, we will pay certain costs and expenses relating to the offering, sale, issuance and servicing of any series of notes and certain costs, expenses and taxes incurred by a trust and will indemnify the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and additional service providers with respect to certain matters. Forms of each expense and indemnity agreement have been filed as exhibits to the registration statement (which includes this prospectus) and are incorporated into this prospectus by reference. Executed copies of each expense and indemnity agreement may be inspected during normal business hours at our principal executive offices set forth on the cover page of this prospectus. See “Description of the Expense and Indemnity Agreements” below.

### **Amendment**

The trust agreement may be amended by the trustee and the trust beneficial owner:

- in any way that is not inconsistent with the intent of the trust agreement and that does not adversely affect, in any material respect, the terms of any notes;
- with the prior consent of the holders of a majority of the outstanding principal amount of affected notes, in any way that would adversely affect, in any material respect, the terms of any such notes; and
- with the prior consent of each affected holder, to (1) change the amount or timing of any payment of any trust beneficial interest or series of notes or (2) impair the right of the trust beneficial owner or any noteholder to institute suit for the enforcement of any right for principal and interest or other distribution.

[Table of Contents](#)

Subject to the second and third bullet points above, the trustee and the trust beneficial owner may amend the trust agreement, without the consent of any noteholder, at any time to the extent necessary to ensure that the applicable trust will be disregarded or treated as a grantor trust (assuming that any such trust were not disregarded) for United States federal income tax purposes or to ensure that the applicable trust will not be required to register as an investment company under the Investment Company Act of 1940, as amended. We shall advise each rating agency that is then rating the program or any series of notes of any such amendment.

## DESCRIPTION OF THE NOTES

The following is a general description of the terms of the notes. We will provide specific terms of a series of notes in the applicable prospectus supplement and a pricing supplement to this prospectus. For purposes of this prospectus, “business day” shall have the meaning set forth in the applicable prospectus supplement or the applicable pricing supplement.

Each series of notes will be issued pursuant to an indenture, between the applicable trust and Citibank, N.A., as indenture trustee (the “indenture trustee”), which will adopt and incorporate the standard indenture terms in its entirety. The indenture is included in the form of omnibus instrument. Copies of the form of standard indenture terms and the form of omnibus instrument (including the form of indenture) are filed as exhibits to the registration statement (of which this prospectus is a part) and is incorporated into this prospectus by reference. With respect to a particular trust, we refer to the applicable indenture and the standard indenture terms as the “indenture.” The following summary highlights some of the provisions of the indenture, but it may not contain all of the information that is important to you. We do not restate the indenture in its entirety and we urge you to read the indenture, which is filed as an exhibit to the registration statement of which this prospectus forms a part.

### General

Except as described in the applicable prospectus supplement or the applicable pricing supplement, the indenture does not limit the amount of notes that a trust may issue, and a trust may only issue notes in one series. A series of notes will be the trust’s unconditional, direct, non-recourse, secured and unsubordinated obligations. Each series of notes will be secured by a funding agreement relating to that series of notes and the related guarantee issued by PFG.

The notes may be offered to institutional or retail investors. Notes offered to institutional investors will be offered under the prospectus supplement to this prospectus relating to our secured medium-term notes program. These notes:

- may bear interest at a fixed rate or floating rate, or bear no interest at all;
- may be amortizing notes, meaning that a portion or all of the principal amount is payable prior to the stated maturity in accordance with a schedule or by application of a formula;
- may be discount notes that do not bear interest currently or bear interest at a rate that is below market rates at the time of issuance;
- may have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of the notes;
- will not contain a survivor’s option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes;
- may be denominated in U.S. dollars or one or more foreign currencies; and
- may provide for the payment of additional amounts relating to any required withholding if specified in the applicable pricing supplement.

Notes offered to retail investors will be offered under the prospectus supplement to this prospectus relating to the Principal® Life CoreNotes® program. These notes:

- may bear interest at a fixed rate or floating rate, or bear no interest at all;
- will not be amortizing notes;
- may be discount notes that do not bear interest currently or bear interest at a rate that is below market rates at the time of issuance;



## Table of Contents

- may have redemption and/or repayment provisions, if applicable, whether mandatory or at the option of the trust or the holders of the notes;
- may contain a survivor's option, permitting optional repayment of notes of a series of notes, subject to certain limitations, prior to maturity, if requested, following the death of the beneficial owner of notes of that series of notes;
- will be denominated in U.S. dollars only; and
- will not provide for the payment of additional amounts relating to any required withholding under any circumstances.

At the time of sale of a series of notes, at least one nationally recognized statistical rating organization will have rated the notes in one of its generic rating categories which signifies investment grade.

Material United States federal income tax considerations relating to the notes will be described in the applicable prospectus supplement.

Each indenture and the notes will be governed by the internal laws of the State of New York.

### **Collateral**

Under the indenture, the funding agreement issued to and deposited into a trust by us in exchange for the proceeds from the offering of its series of notes will be collaterally assigned by the trust, and the trust will grant a security interest in the funding agreement, to the indenture trustee for the benefit of the holders of the related series of notes. The trust will also collaterally assign and grant a security interest in the guarantee issued by PFG to the trust in favor of the indenture trustee for the benefit of the holders of the related series of notes. Accordingly, each series of notes will be secured by a perfected security interest in the "collateral," consisting of:

- the relevant funding agreement held in the relevant trust;
- the guarantee issued by PFG to the trust, which fully and unconditionally guarantees our payment obligations under the relevant funding agreement;
- all proceeds of the relevant funding agreement and the relevant guarantee and all amounts and instruments on deposit from time to time in the related collection account;
- all books and records pertaining to the relevant funding agreement and the related guarantee; and
- all of the trust's rights pertaining to the foregoing.

Under the custodial agreement entered into among the indenture trustee, Bankers Trust Company, N.A. (the "custodian") and the trustee (on behalf of each trust to be formed in connection with the issuance of a series of notes), upon the collateral assignment of and grant of security interest in the funding agreement and the guarantee related to a series of notes of a trust, the custodian will hold the funding agreement and the guarantee, on behalf of the indenture trustee in the State of Iowa.

### **Covenants**

Under the indenture, the trust will make certain covenants to the indenture trustee for the benefit of noteholders. In addition, the indenture requires the trust to hold funds in trust for payments under the notes, pay to the indenture trustee principal, interest and premium (if any) due on the notes and take all necessary action to protect the collateral. Further, the trust is obligated to deliver to the indenture trustee an annual statement certifying its compliance with the conditions, performance of obligations and adherence to covenants under the indenture. In addition to its other covenants, the trust has agreed that it

## Table of Contents

will not, so long as any notes of its series are outstanding, take any of the following actions, except as otherwise permitted by the indenture:

- sell, transfer, exchange, assign, lease, convey or otherwise dispose of any assets held by the trust (owned as of the date of the trust agreement or thereafter acquired), including, without limitation, any portion of the relevant collateral;
- incur or otherwise become liable, directly or indirectly, for any debt obligation except for the notes of its series and the transactions contemplated thereby;
- engage in any business or activity other than in connection with, or relating to, (1) the performance of the trust agreement and the execution, delivery and performance of any documents (other than the trust agreement), including the indenture, the funding agreement, the guarantee, the license agreement to be entered into between the trust and PFS (the “license agreement”), the distribution agreement to be entered into among the trust, us, PFG and our agents and dealers (the “distribution agreement”), the expense and indemnity agreements and any other documents or instruments entered into by, or with respect to, the trust (all documents and instruments including the trust agreement are referred to herein collectively as the “Program Documents”), relating to any notes of its series issued under the indenture and the transactions contemplated thereby, and (2) the issuance of notes of its series pursuant to the indenture;
- (1) permit the validity or effectiveness of the indenture or any grant of security interest in or assignment for collateral purposes of the applicable collateral to be impaired, or permit a lien created under the indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any person or entity to be released from any covenants or obligations under any document or agreement assigned to the indenture trustee, except as may be expressly permitted thereby, (2) create, incur, assume or permit any lien or other encumbrance (other than the lien created under the indenture) on any of its properties or assets owned or hereafter acquired, or any interest therein or the proceeds thereof or (3) permit a lien created under the indenture not to constitute a valid first priority perfected security interest in the applicable collateral;
- amend, modify or fail to comply with any material provision of the trust agreement except for any amendment or modification of the trust agreement expressly permitted thereunder;
- own any subsidiary or lend or advance any funds to, or make any investment in, any person, except for an investment in a funding agreement or the investment of any of its funds held by the indenture trustee, the paying agent, or the trustee, as provided in the indenture or the trust agreement;
- directly or indirectly declare or make any distribution or other payment to, or redeem or otherwise acquire or retire for value the interest of, the trust beneficial owner if any amount under the related series of notes is due and unpaid, or directly or indirectly redeem or otherwise acquire or retire for value any debt other than such series of notes;
- cause or permit the sale or other transfer of all or a portion of any trust beneficial interest, or cause or permit the creation, incurrence, assumption or existence of any lien on all or a portion of any trust beneficial interest;
- exercise any rights with respect to the relevant collateral except at the written direction of, or with the prior written approval of, the indenture trustee;
- become an “investment company” or come under the “control” of an “investment company,” as such terms are defined in the Investment Company Act of 1940, as amended;
- enter into any transaction of merger or consolidation or liquidate or dissolve itself (or suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all

## Table of Contents

the business or assets of, or any stock or other evidence of beneficial ownership of, any other person;

- take any action that would cause the trust not to be disregarded or treated as a grantor trust (assuming such trust were not disregarded) for United States federal income tax purposes;
- have any subsidiaries, employees or agents other than the trustee and other persons necessary to conduct its activities and enter into transactions contemplated under the Program Documents;
- have an interest in any bank account other than (1) the accounts required under the Program Documents and (2) those accounts expressly permitted by the indenture trustee, provided that any interest therein shall be charged or otherwise secured in favor of the indenture trustee;
- issue any notes unless
  - the trust has purchased, or will simultaneously purchase in connection with the issuance of a series of notes, a funding agreement from us to secure such notes, the payment obligations of which will be fully and unconditionally guaranteed by PFG;
  - we have affirmed to the trust in writing that we have made or simultaneously will make changes to our books and records to reflect the granting by the trust of a security interest in, and the making by the trust of an assignment for collateral purposes of, the relevant funding agreement to the indenture trustee with respect to a series of notes;
  - PFG has issued the guarantee to the trust and the trust has collaterally assigned and granted a security interest in the guarantee in favor of the indenture trustee for the benefit of the holders of such notes; and
  - the trust has taken such other steps as may be necessary to cause the indenture trustee's grant of such security interest in, and assignment for collateral purposes of, the relevant funding agreement and other collateral, including the relevant guarantee, to be perfected for purposes of the Uniform Commercial Code or effective against the trust's creditors or subsequent purchasers of the relevant funding agreement and collateral pursuant to insurance or other applicable law;
- permit any affiliate, employee, officer or agent of us or PFG or any dealer or agent appointed under the distribution agreement to be a trustee of the trust;
- commingle its assets with the assets of any affiliates or any other trust or guarantee any obligation of any of its affiliates or any other trust; or
- maintain any joint account with any person or entity, become a party, whether as co-obligor or otherwise, to any agreement to which any person or entity is a party (other than in respect of the Program Documents), or become liable as a guarantor or otherwise with respect to any debt or contractual obligation of any person or entity.

## **Events of Default**

Upon the occurrence of an Event of Default (as defined below), the notes may become due and payable at an amount equal to the outstanding principal amount plus accrued but unpaid interest and any other amounts payable or, if such notes are non-interest bearing, the amortized face amount of such notes or such other redemption amount as may be specified in the applicable pricing supplement.

The following will be Events of Default under the notes of any series:

- the trust's failure to pay the principal (other than any installment payment), when due and payable, of any note of such series and continuance of such failure for a period of one business day;
- the trust's failure to pay any interest, premium, if applicable, installment payments (if applicable) or any other amounts, when due and payable, on any note of such series and continuance of such failure for a period of seven business days;
- any "Event of Default" (as defined in the funding agreement related to such series of notes) by us under the funding agreement securing the notes of such series (see "Description of the Funding Agreements — Funding Agreement Events of Default");
- the trust's failure to observe or perform in any material respect any covenant contained in the indenture (other than those listed in the first, second and, if applicable, eighth bullet points herein) or the notes of such series for a period of 60 days after the date on which the indenture trustee provides the trust written notice by registered or certified mail, return receipt requested, specifying such failure, or the holder(s) of at least 25% in aggregate principal amount of the notes of the series provide the trust and the indenture trustee written notice in the same manner, specifying such failure and requiring such failure to be remedied and stating that it is a "notice of default;"
- the indenture ceases to be in full force and effect (other than in accordance with its terms) or is declared null and void, or the indenture trustee fails to have or maintain a validly created and perfected security interest subject to no prior liens or security interests in the collateral required to secure the notes of such series, or any person successfully claims as finally determined by a court of competent jurisdiction that any lien with respect to the collateral is void or that the enforcement of such lien or any other recourse by the indenture trustee is materially limited because of any preference, fraudulent transfer, conveyance or similar law;
- either (1) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the trust or the relevant collateral in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect in the applicable jurisdiction, which decree or order is not stayed, or any other similar relief shall be granted under any applicable law, or (2) an involuntary case shall be commenced against the trust or the relevant collateral under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction, or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the trust or the relevant collateral, or over all or a substantial part of its property, shall have been entered, or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the trust or the relevant collateral for all or a substantial part of the trust's property, or a court having jurisdiction in the premises shall enter a decree or order declaring the dissolution of the trust, or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the trust's property and any such event described in this clause (2) shall continue for 60 days unless dismissed, bonded or discharged;
- either (1) the trust shall have an order for relief entered with respect to the trust or shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of the trust's property, or the trust shall make any assignment for the benefit of creditors, or (2) the trust shall fail or be unable, or the

## Table of Contents

trust admits in writing the trust's inability, to pay the trust's debts as such debts become due, or the trustee shall adopt any resolution or otherwise authorize any action to approve or for the purpose of effecting any of the actions referred to in this paragraph; or

- any other Event of Default provided in any pricing supplement and the applicable notes of such series or the indenture.

When an Event of Default specified in the fourth, fifth or eighth bullet point above shall have occurred and be continuing, the indenture trustee or the holder(s) of at least 25% in aggregate principal amount of the outstanding notes of the affected series may, by written notice to the trust and the indenture trustee (if applicable), declare the principal of and all accrued and unpaid interest and any other amounts payable on the notes of such series to be due and payable. Such amounts shall become due and payable on the date the written declaration is received by the trust. This provision, however, is subject to the condition that, at any time after the principal of the notes of such series shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered, the holder(s) of at least 66 2/3% in aggregate principal amount of the notes of such series then outstanding by written notice to the trust and the indenture trustee may rescind and annul such declaration and its consequences with respect solely to such series, subject to certain conditions, but no such rescission and annulment shall affect any subsequent default or shall impair any right consequent thereon. If an Event of Default specified in the first, second, third, sixth or seventh bullet point above occurs, the principal of and accrued and unpaid interest and any other amounts payable on the notes of such series will be immediately due and payable without any declaration or other action by the trust, the indenture trustee or the holder of any note.

The Events of Default described above (other than the Event of Default specified in the third bullet point above) are different from the funding agreement defaults described later in this prospectus under the heading "Description of the Funding Agreements." In certain circumstances, an Event of Default may occur and give rise to an acceleration of principal and interest on the notes of a series without there being a corresponding funding agreement default and acceleration of payment obligations under the related funding agreement. In such a case, there would be no or limited funds available to pay the accelerated principal and interest under the notes. In such a case, the indenture trustee, acting for the benefit of the holders of the applicable series of notes, will be limited to a proceeding against the funding agreement and the related collateral. However, because under such circumstances we would not be under any obligation to accelerate our payment obligations under the funding agreement, the indenture trustee could only:

- continue to receive scheduled periodic payments under the collateral, including any applicable funding agreement;
- dispose of the collateral, including the funding agreement, subject to obtaining our consent; or
- exercise any combination of the foregoing.

Any such disposition of collateral could be made on unfavorable terms and result in material losses to the holders of the applicable series of notes.

An event of default under the PFG guarantee relating to a series of notes will not be an Event of Default with respect to such series of notes or under the indenture.

We shall advise each rating agency that is then rating the program or any series of notes of any such Event of Default.

### **Application of Money Collected Under the Indenture**

Following an Event of Default and during the continuance thereof, with respect to a series of notes, any moneys that may then be held or thereafter received by the indenture trustee as security with

## Table of Contents

respect to the notes of such series shall be held in the relevant collection account and shall be applied in the following order, at the dates and manner fixed by the indenture trustee:

*first*, to the payment of the reasonable and customary expenses and counsel fees incurred by the indenture trustee and any other amounts due and unpaid to the indenture trustee by the trust, in an aggregate amount of no more than \$250,000 for all series of notes issued by all trusts outstanding, to the extent not paid pursuant to the expense and indemnity agreements;

*second*, to the payment of the amounts then due and unpaid upon the notes of the relevant series for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on such notes, and

*third*, any remaining balance shall be paid to the trust and such remaining balance shall be distributed by the trustee in accordance with the trust agreement as described under “Description of the Trusts — Application of Money Received by the Trustee on Behalf of a Trust”.

If no Event of Default exists, the following priority of payments shall apply:

*first*, to the payment of the amounts then due and unpaid upon the notes of the relevant series for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on such notes, and

*second*, any remaining balance shall be paid to the trust and such remaining balance shall be distributed by the trustee in accordance with the trust agreement as described under “Description of the Trusts — Application of Money Received by the Trustee on Behalf of a Trust”.

We will pay the costs and expenses incurred by a trust under the expense and indemnity agreements with each of the indenture trustee, the custodian, the trust beneficial owner and the trustee (on behalf of itself and the trust) and any additional service provider appointed from time to time. See “Description of the Expense and Indemnity Agreements.”

Except as expressly set forth in the indenture, none of the indenture trustee, any paying agent, registrar or any of their successors, employees, officers, directors, affiliates or agents shall have any claim or rights of any nature in or to the relevant collateral, whether as a result of set-off, banker’s lien or otherwise.

### **Certain Rights of Holders**

The holder(s) of a majority in aggregate principal amount of the notes of any series at the time outstanding, who provide the indenture trustee with indemnification satisfactory to the indenture trustee, shall have the right to direct the time, method, and place of conducting any proceeding for exercising any remedy available to the indenture trustee or exercising any trust or power conferred on the indenture trustee by the indenture, in each case solely in respect of such series of notes, including with respect to the collateral, provided, however, that such direction shall not be in conflict with any rule of law or the indenture and the indenture trustee may take any other action deemed proper by the indenture trustee that is not inconsistent with such direction.

No holder of the notes of a series shall have any right to institute any proceedings, judicial or otherwise, with respect to the indenture or any agreement or instrument included in the collateral for such series of notes or for the appointment of a receiver or trustee, unless:

- such holder has previously given written notice to the indenture trustee of a continuing Event of Default with respect to such series of notes;
- the holder(s) of notes representing not less than 25% of the aggregate principal amount of the outstanding notes of such series shall have made written request to the indenture trustee

## Table of Contents

to institute proceedings in respect of such Event of Default in its own name as the indenture trustee;

- such holder(s) have offered to the indenture trustee indemnity or security satisfactory to it against the costs, expenses and liabilities to be reasonably incurred in compliance with such request;
- the indenture trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- no direction inconsistent with such written request has been given to the indenture trustee during such 60 day period by the holder(s) of notes of any series representing at least 66 2/3% of the aggregate principal amount of the outstanding notes of such series.

With respect to the above, no holder(s) of notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of the indenture to affect, disturb or prejudice the rights of any other holder of any note of the relevant series or to obtain or to seek to obtain priority or preference over any other holder of any note of the relevant series to enforce any right under the indenture, except in the manner therein provided and for the equal and ratable benefit of all the holders of the notes of the relevant series.

Notwithstanding the foregoing, nothing in the notes of the relevant series or the indenture will prevent any relevant holder from enforcing its right to receive payment of the principal of and interest on such notes, or any other amount payable under such notes or the indenture, when and to the extent such payments become due and such rights will not be impaired without the consent of such holder.

Since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right by such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws is no different than if we had issued the funding agreement directly to such purchasers. The right by such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

## **Modifications and Amendments**

### ***Modifications and Amendments Without Consent of Holders***

The trust may enter into a supplemental indenture with the indenture trustee at any time, without the consent of any holder of notes, for the purpose of:

- curing any ambiguity or correcting or supplementing any provision contained in the indenture, the notes of the relevant series or any supplemental indenture, which may be defective or inconsistent with any other provision contained in the indenture, the notes of that series, the relevant supplemental indenture, the relevant funding agreement or any other Program Documents, which shall not materially adversely affect the interests of any holder of the relevant series of notes;
- adding to the trust's covenants or those of the indenture trustee for the benefit of the holders of the applicable series of notes or to surrender any right or power conferred in the indenture on the trust;
- adding any additional Events of Default to the indenture;
- evidencing and providing for the acceptance of appointment by a successor indenture trustee with respect to the notes of the applicable series and to add to or change any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trust or the applicable series of notes under the indenture by more than one trustee;

## Table of Contents

- providing for the issuance of and establishing the forms and terms and conditions of notes of the applicable series; or
- establishing the form of any certifications required to be furnished pursuant to the terms of the indenture or the applicable series of notes.

We shall advise each rating agency that is then rating the program or any series of notes of any such supplemental indenture.

### ***Modifications and Amendments With Consent of Holders***

The trust and the indenture trustee may enter into one or more supplemental indentures for the purpose of making any amendment or modification to the notes of the applicable series or the indenture or modifying in any manner the rights of any holder of notes with consent of the holder(s) representing a majority in aggregate principal amount of the notes of the applicable series at the time outstanding. However, no such supplemental indenture may, without the affirmative consent or affirmative vote of the holder of each note of the applicable series affected thereby:

- change the stated maturity of the principal of or any installment of interest on any note of the applicable series;
- reduce the principal amount of or interest on any note of the applicable series;
- change any place of payment where, or the coin or currency in which the principal of or interest on, any note of the applicable series is payable;
- impair or affect the right of any holder of the applicable series to institute suit for the enforcement of any payment on or with respect to the notes of the applicable series;
- reduce the percentage of the aggregate principal amount of the outstanding notes of the applicable series the consent of the holders of which is required for any supplemental indenture, or the consent of the holders of which is required for any waiver of compliance with provisions of the indenture or defaults thereunder and their consequences provided for in the indenture;
- modify any of the provisions of the indenture respecting modifications and amendments, except to increase any percentage specified in the indenture or to provide that additional provisions of the indenture cannot be modified or waived without the consent of the holder of each outstanding note of the applicable series;
- modify or alter the provisions of the definition of “Outstanding” in the indenture;
- modify or affect in any manner adverse to the interest of any holder of notes of the applicable series the terms and conditions of the applicable trust’s obligations regarding the due and punctual payment of the principal of, interest on or any other amounts due with respect to the notes of such series; or
- permit the creation of any lien ranking prior to or on a parity with the lien of such indenture with respect to any part of the collateral of the applicable series of notes or terminate the lien of such indenture on any property held for the benefit and security of holders of notes of the applicable series or deprive the holder or any note of the applicable series of the security afforded by the collateral.

We shall advise each rating agency that is then rating the program or any series of notes of any such supplemental indenture.

The trust will not enter into any supplemental indenture with the indenture trustee (either with or without the consent of the holders of notes) that would cause any trust not to be disregarded or treated as a grantor trust (assuming any such trust were not disregarded) for United States federal income tax purposes.



## Indenture Trustee

Under the indenture, if an Event of Default with respect to the applicable series of notes has occurred and is continuing, the indenture trustee is obligated to exercise such of the rights and powers vested in it by the indenture, and to use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

Except during the continuance of an Event of Default, the indenture provides that the indenture trustee shall perform only those duties that are specifically set forth therein, and no implied covenants or obligations of the indenture trustee will be read into the indenture.

No provision of the indenture will be construed to relieve the indenture trustee from liability for its own negligent action, its own negligent failure to act or its own bad faith or willful misconduct, except that:

- this paragraph does not limit the effect of the immediately preceding paragraph;
- the indenture trustee may in good faith rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the indenture trustee and conforming to the requirements of the indenture unless a “responsible officer” (as defined in the indenture) of the indenture trustee has actual knowledge that such statements or opinions are false, provided that the indenture trustee must examine such certificates and opinions to determine whether they conform to the requirements of the indenture;
- the indenture trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the indenture trustee was negligent in ascertaining the pertinent facts;
- the indenture trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with the direction of the holders of notes representing a majority of the aggregate principal amount of the notes of the applicable series then outstanding (or if an Event of Default under the notes has occurred and the holders direct the indenture trustee to take action as described under “— Certain Rights of Holders” above) relating to the time, method and place of conducting any proceeding for any remedy available to the indenture trustee, or exercising any trust or power conferred upon the indenture trustee, under the indenture; and
- no provision of the indenture requires the indenture trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The indenture trustee may resign at any time by giving not less than 60 days’ prior written notice thereof to the trust and the holders of the applicable series of notes. If no successor indenture trustee shall have accepted appointment within 30 days after the giving of such notice of resignation, the resigning indenture trustee may petition any court of competent jurisdiction for the appointment of a successor indenture trustee.

If at any time:

- the indenture trustee shall cease to be eligible to serve as indenture trustee under the requirements of the indenture and shall fail to resign after written request by the trust or any applicable holder of notes of such series (who has been a bona fide holder of a note for at least six months);
- the indenture trustee shall become incapable of acting with respect to the applicable series of notes or shall be adjudged as bankrupt or insolvent, or a receiver or liquidator of the

## Table of Contents

indenture trustee or of its property shall be appointed, or any public officer shall take charge or control of the indenture trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation; or

- the indenture trustee shall fail to comply with the obligations imposed upon it under Section 310(b) of the Trust Indenture Act of 1939, as amended, with respect to the applicable series of notes after written request by the trust or any applicable holder of notes of such series (who has been a bona fide holder of a note for at least six months);

then, the trust (except upon the occurrence and during the continuation of an Event of Default) may petition any court of competent jurisdiction to remove the indenture trustee with respect to such series of notes and appoint a successor indenture trustee.

In addition to the right of petition given to the resigning indenture trustee and the right of removal given to the trust pursuant to the preceding paragraphs, any holder who has been a bona fide holder of notes of the applicable series for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor indenture trustee or the removal of the indenture trustee and the appointment of a successor indenture trustee, as the case may be.

Holders of a majority in aggregate principal amount of the notes of the applicable series at the time outstanding may at any time remove the indenture trustee with respect to the notes of the applicable series and appoint a successor indenture trustee with respect to the notes of the applicable series by delivering to the indenture trustee so removed, to the successor indenture trustee so appointed and to the trust the evidence required for such action by the indenture.

If the indenture trustee resigns, is removed or becomes incapable of acting, or if a vacancy occurs in the office of the indenture trustee for any reason, the trust shall promptly appoint a successor indenture trustee. If, within one year after such resignation, removal or incapability or the occurrence of such vacancy, a successor indenture trustee shall be appointed by holders of notes representing a majority in aggregate principal amount of the outstanding notes of the applicable series delivered to the trust and the retiring indenture trustee, the successor indenture trustee so appointed shall, upon its acceptance of such appointment, become the successor indenture trustee and supersede the successor indenture trustee appointed by the trust.

The indenture trustee and each successor indenture trustee must be a United States person within the meaning of section 7701(a)(30) of the Code.

### **Meetings of Holders**

A meeting of holders of notes of the applicable series may be called at any time and from time to time pursuant to the indenture to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the indenture to be made, given or taken by such holders of such series of notes.

Unless otherwise provided in the notes of the applicable series, the indenture trustee may at any time call a meeting of holders of notes of the applicable series for any purpose specified in the preceding paragraph, to be held at such time and at such place in The City of New York or at such other place as the indenture trustee shall determine. Notice of every meeting of such holders of notes of the applicable series, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, must be given not less than 21 nor more than 180 days prior to the date fixed for the meeting.

Subject to the provisions under “— Modification and Amendments” above and Section 316 of the Trust Indenture Act of 1939, as amended, any resolution passed or decision taken at any meeting of holders of notes of the applicable series duly held in accordance with the indenture will be binding on all

## [Table of Contents](#)

of the holders of notes of the applicable series, whether or not such holders were present or represented at the meeting.

### **Nonrecourse Enforcement**

Notwithstanding anything to the contrary contained in the indenture or the notes, other than as described below, none of us, PFG, our or its officers, directors, affiliates, employees or agents, the trust and none of its trustees, beneficial owners (including the trust beneficial owner) or agents, or any of their respective officers, directors, affiliates, employees or agents, all of whom we refer to collectively in this prospectus and the accompanying prospectus supplement as the “nonrecourse parties,” will be personally liable for the payment of any principal, interest or any other sums at any time owing under the terms of any notes. If any Event of Default shall occur with respect to a series of notes, the right of the holder(s) of the notes of such series and the indenture trustee on behalf of such holder(s) in connection with a claim on such series of notes will be limited solely to a proceeding against the collateral for such series of notes.

Neither such holder(s) nor the indenture trustee on behalf of such holder(s) will have the right to proceed against the nonrecourse parties or the assets of any other trust to enforce the relevant series of notes (except that to the extent they exercise their rights, if any, to seize the funding agreement and the related guarantee securing the notes held by such holder(s), they may enforce the funding agreement against us or the related guarantee against PFG) or for any deficiency judgment remaining after foreclosure of any property included in the collateral. However, this will not in any manner or way constitute or be deemed a release of the debt or other obligations evidenced by the notes or otherwise affect or impair the enforceability against the assets of the relevant trust of the collateral or any other instrument or agreement evidencing, securing or relating to the indebtedness or the obligations evidenced by the notes. The holders of notes are not precluded from foreclosing upon any property included in the collateral.

In addition, since we and PFG are registrants, purchasers of notes may proceed directly against us and PFG to enforce their rights under the United States federal and state securities laws. The right by such purchasers to proceed against us, with respect to the applicable funding agreement, under the United States federal and state securities laws is no different than if we had issued the funding agreement directly to such purchasers. The right by such purchasers to proceed against PFG, with respect to the applicable guarantee, under the United States federal and state securities laws is no different than if PFG had issued the guarantee directly to such purchasers.

### **Miscellaneous**

#### *Notices*

All notices regarding notes may be sent by overnight courier or first class mail (or equivalent) or (if posted to an overseas address) by airmail, postage prepaid, to the registered owners of the notes as their names appear in the note register maintained by the registrar or, for book-entry notes, notice may be given to The Depository Trust Company for communication by it to its accountholders or by delivery.

#### *Governing Law; Submission to Jurisdiction*

The indenture and the notes of each series shall be governed by, and construed in accordance with, the laws of the State of New York, except to the extent that the validity or perfection of the ownership of and security interest in the relevant funding agreement and the related guarantee of the relevant trust or remedies under the indenture in respect thereof may be governed by the laws of a jurisdiction other than the State of New York. All judicial proceedings brought against the trust or the indenture trustee arising out of or relating to the indenture, any note or any portion of the collateral may be brought in a United States federal court of competent jurisdiction located in New York City, the Borough of Manhattan, provided that the pricing supplement for any series of notes may specify other

jurisdictions as to which the trust may consent to the nonexclusive jurisdiction of its courts with respect to such series of notes.

## DESCRIPTION OF THE FUNDING AGREEMENTS

This section provides a summary of the material terms and conditions of the funding agreements. Specific terms of a funding agreement issued with respect to a series of notes and the extent to which these general provisions apply to that funding agreement will be provided in the applicable prospectus supplement and pricing supplement to this prospectus. This summary is not complete and you should read the detailed provisions of the funding agreement. A form of the funding agreement is filed as an exhibit to the registration statement (of which this prospectus is a part) and is incorporated into this prospectus by reference.

### General

Each funding agreement will be issued by us to the applicable trust and will be held separately as collateral by the indenture trustee for the benefit of the holders of the related series of notes. Each funding agreement will represent our unsecured obligation. Under each funding agreement, the applicable trust shall pay us a deposit in an amount equal to the issue price (expressed as a percentage) of the notes multiplied by the aggregate principal amount of the series of notes plus the aggregate amount of the trust beneficial interest issued in connection with such funding agreement plus accrued interest, if any, less any commission or compensation payments due to any person. Such deposit shall be made in the currency in which such notes are denominated. Upon receipt of such deposit we shall then be obligated to establish a bookkeeping account which will evidence our obligation under the funding agreement. Unless otherwise specified in the applicable pricing supplement, the initial deposit of such obligation will be deemed to be equal to the aggregate face amount of the notes of such series of notes plus the aggregate amount of the trust beneficial interest and interest, if any, will accrue on such balance at such rate and upon such terms as is accruing on the applicable series of notes. Unless otherwise specified in the applicable pricing supplement, for a funding agreement securing a series of notes other than discount notes, the aggregate of the deposits received pursuant to the funding agreement (as specified in the applicable annex to such funding agreement), less any withdrawals to make payments under such funding agreement (other than additional amounts, if applicable), plus any interest accrued pursuant to such funding agreement, all as set forth in the applicable annex to such funding agreement, is referred to as the “fund.” Unless otherwise specified in the applicable pricing supplement, for a funding agreement securing a series of notes that are discount notes, the aggregate of the deposits received pursuant to the funding agreement (as specified in the applicable annex to such funding agreement), less any withdrawals to make payments under such funding agreement (other than additional amounts, if applicable), plus any accrual of discount (determined in accordance with the applicable series of notes), plus, if applicable, any interest accrued pursuant to such funding agreement, all as set forth in the applicable annex to such funding agreement, is referred to as the “fund.” The bookkeeping account established to evidence the fund is a general account obligation and shall not be an obligation of any of our separate accounts.

Under each funding agreement, we will be obligated to make or cause to be made certain payments as are necessary to permit the trust to meet in full its scheduled payment obligations under the relevant series of notes. Therefore, the currency of denomination, maturity, redemption, repayment and interest rate provisions of the funding agreement issued by us to the trust shall be structured so that the payments made by or at the direction of us will enable the trust to meet its requisite obligations under the relevant series of notes. The repayment of principal on such funding agreement will occur at the stated date of maturity of the funding agreement, or, under certain circumstances specified by the terms of the funding agreement, at a date or dates prior to maturity. Amounts received by a trust in respect of interest or principal on a funding agreement will be applied to all payments due the holders of notes of the related series of notes and beneficial interest for that trust. Each funding agreement provides that all such payments are intended to be made without any United States tax withholding obligations. Any amendment or modification to the terms of a series of notes made after the effective date of the relevant funding

## Table of Contents

agreement will not affect our payment obligations pursuant to the relevant funding agreement, unless such amendment or modification has been consented to in writing by us. Additional terms of each funding agreement will be described in the applicable prospectus supplement and pricing supplement.

A funding agreement is a type of insurance company product in which the purchaser, usually an institutional investor, pays the insurance company a deposit and, in turn, receives scheduled payments of principal and interest. The deposit we receive on the issuance of a funding agreement will be part of our general account and not allocated to any of our separate accounts. Our general account is the account which contains all of our assets and liabilities other than those held in our separate accounts. (Separate accounts are segregated accounts which are established for certain products that we sell. A separate account holds assets and liabilities specifically related to one or more products and segregates these assets and liabilities from the assets and liabilities of all other separate accounts and the assets and liabilities of our general account.) Since the deposit made under any funding agreement will be part of our general account, our obligations under each funding agreement will be the obligations of our general account, rather than the obligations of any separate account. As such, we will invest the proceeds from the sale of funding agreements in a portfolio of assets which along with our other general account assets will be used to meet our contractual obligations under the funding agreements and our other general account obligations. We will earn the spread differential between the cost of our obligations under the funding agreements and the yield on our invested assets. We may periodically, consistent with our past practice and subject to all applicable regulatory restrictions on our insurance operations, dividend a portion of the spread income to PFG.

We have established internal procedures to ensure that we perform all of our payment obligations under the funding agreements. A specific group of employees in our company will monitor performance of our payment obligations under the funding agreements and will promptly notify the indenture trustee in the event we have not timely made payments under any funding agreement. Under the applicable indenture, the calculation agent will notify us of the amount of interest due on any notes prior to any interest payment date. Additionally, in the event that we fail timely to make any payment under the applicable funding agreement and PFG fails timely to make any payment under the related guarantee, the indenture trustee will notify us and PFG of such failure and will have the right to enforce the rights of noteholders contained in the indenture.

Unless otherwise set forth in the applicable pricing supplement, the funding agreements will be rated AA by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. We expect the funding agreements to be rated Aa3 by Moody's Investors Service, Inc. ("Moody's"). The rating of the applicable funding agreement by Moody's will be specified in the applicable pricing supplement. Notes of a series will be issued only in the event that, at the time of issuance of such series of notes, at least one nationally recognized rating agency would assign an investment grade rating to such series of notes and the funding agreement securing such series of notes.

The trust will grant a security interest in and collaterally assign the funding agreement relating to the applicable series of notes to the indenture trustee as collateral to secure the trust's obligations under that series of notes.

### **Priority**

Each funding agreement is our unsecured obligation and, in the event of our impairment or insolvency, the Iowa Insurance Commissioner will be authorized and directed to commence delinquency proceedings for the purpose of liquidating, rehabilitating, reorganizing or conserving us pursuant to Iowa Code Sections 507C.4, 507C.12, 507C.13, 507C.14 and 507C.16. In conducting delinquency proceedings, claims are prioritized and an order of distribution is specified pursuant to Iowa Code Section 507C.42. There are nine classes within the priority scheme, with each successive class being fully junior to the preceding class. Class 1 priority is given to the costs and expenses of administration of the insurer during the delinquency proceedings and Class 2 priority is given to the claims of the insurer's policyholders and guaranty associations. Sidley Austin Brown & Wood LLP, counsel to us and PFG, has opined that, subject

## [Table of Contents](#)

to the limitations, qualifications and assumptions set forth in its opinion letter, in a properly prepared and presented case, a court applying Iowa law would conclude that loss claims of principal and interest in respect of each funding agreement would be accorded Class 2 priority under Iowa Code Section 507C.42 and paid equally in priority with our other policyholders.

Sidley Austin Brown & Wood LLP has advised that its opinion is based on its interpretation of the relevant provisions of the Iowa Code as construed by relevant administrative and judicial authority. However, the Iowa Code and regulations, interpretations and decisions are subject to change, either prospectively or retroactively, and many of the issues addressed in counsel's opinion depend upon a facts and circumstances analysis that has received little or no administrative or judicial consideration. Therefore, the Iowa Insurance Commissioner, in his/her capacity as liquidator, rehabilitator or otherwise, or the courts could disagree in whole or in part with our analysis.

Iowa law would apply to our insolvency or receivership proceedings. Sidley Austin Brown & Wood LLP has advised that the statutory liquidation priority accorded to funding agreements under Iowa law does not clearly apply to any additional amounts required to be paid (if specified in the applicable pricing supplement) as may be necessary in order that the net amounts receivable by a holder after any withholding or deduction under United States tax law shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction. Accordingly, Sidley Austin Brown & Wood LLP has advised that claims for such payments, if any, may not rank equally with either life insurance policy and annuity claims or funding agreement claims, but would rank at least equally with the claims of our general creditors, which are given Class 5 priority under Iowa Code Section 507C.42. Sidley Austin Brown & Wood LLP expressly disclaimed any opinion that claims for such payments would be entitled to any greater priority.

The scope of the Sidley Austin Brown & Wood LLP opinion regarding a delinquency proceeding with respect to Principal Life is limited to an Iowa delinquency proceeding under Iowa law and to only those claims that are made in domiciliary proceedings in an Iowa court. The opinion of Sidley Austin Brown & Wood LLP recites basic facts with respect to the transaction in which the funding agreement is to be issued, and those facts are implicitly assumed in connection with the rendering of the opinion. The limitations and qualifications in the opinion are that it is limited to the application of the law of the State of Iowa and federal law of the United States and that the opinion is rendered solely as of the date thereof.

In the event that the funding agreements were not accorded Class 2 priority in our insolvency, the funding agreements would be accorded the lower priority associated with our general unsecured obligations. Our payment obligations under the funding agreements are fully and unconditionally guaranteed by PFG. See "Description of the Guarantees."

### **Funding Agreement Events of Default**

Each of the following events will constitute an event of default (a "funding agreement default") under each funding agreement:

- we shall fail to make any payment of interest, premium (if applicable), installment payments (if applicable) or additional amounts (if and as specified in the annex to such funding agreement) in accordance with the funding agreement, if such failure to pay is not corrected within seven business days after it becomes due and payable;
- we shall fail to make any payment of principal (other than any installment payment) in accordance with the funding agreement, if such failure to pay is not corrected within one business day after it becomes due and payable; or
- if we: (a) are dissolved (other than pursuant to a consolidation, amalgamation or merger in which the resulting entity assumes our obligations); (b) become insolvent or are unable to pay our debts or fail or admit in writing our inability generally to pay our debts as they become due; (c) make a general assignment, arrangement or composition with or for the benefit of our creditors; (d) institute or have instituted against us an administrative or legal proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any supervision, rehabilitation, liquidation, bankruptcy or insolvency law or other similar law

affecting creditors' rights, or a petition is presented for our winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against us, such proceeding or petition (1) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for our rehabilitation, winding-up or liquidation or (2) is not dismissed, discharged, stayed or restrained in each case within 60 days of the institution or presentation thereof; (e) have a resolution passed for our rehabilitation, winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger in which the resulting entity assumes our obligations); (f) seek or become subject to the appointment of an administrator, supervisor, rehabilitator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for us or for all or substantially all our assets; (g) have a secured party take possession of all or substantially all our assets or have a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all our assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 60 days thereafter; (h) cause or are subject to any event with respect to us which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive); or (i) take any action in furtherance of, or indicating our consent to, approval of, or acquiescence in, any of the foregoing acts.

Upon the occurrence and continuance of a funding agreement default specified in the first or second bullet point above, the indenture trustee (as collateral holder) has the right, in addition to any other rights and remedies they may have at law or in equity, to immediately demand payment of all principal and accrued and unpaid interest and any other amount due to such date under the affected funding agreement. Upon the occurrence of a funding agreement default specified in the third bullet point above, the principal of and accrued and unpaid interest and any other amounts payable under the affected funding agreement will be immediately due and payable without any declaration or other action by the trust or the indenture trustee (as collateral holder).

#### **Optional Redemption; Optional Repayment**

If a redemption right is specified in the pricing supplement related to a series of notes, we may redeem the related funding agreement prior to the stated maturity date of such funding agreement in whole or from time to time in part in increments of \$1,000 or any other integral multiple of an authorized denomination specified in the applicable pricing supplement (provided that any remaining principal amount thereof shall be at least \$1,000 or other minimum authorized denomination applicable thereto), at the applicable redemption price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the date of redemption. We must give written notice to the trust not more than 60 nor less than 35 calendar days prior to the date of redemption. "Redemption price", with respect to a funding agreement, means an amount equal to the initial redemption percentage specified in the applicable pricing supplement (as adjusted by the annual redemption percentage reduction, as described in the pricing supplement, if applicable) multiplied by the unpaid principal amount to be redeemed. The initial redemption percentage, if any, applicable to a funding agreement shall decline at each anniversary of the initial redemption date by an amount equal to the applicable annual redemption percentage reduction, if any, until the redemption price is equal to 100% of the unpaid amount thereof to be redeemed.

If a repayment right is specified in the pricing supplement relating to a series of notes, the related funding agreement may be subject to repayment at the request of the relevant trust, upon the valid exercise of the repayment right in the related notes by the holder of such notes, on any repayment date specified in the applicable pricing supplement. On any such repayment date, unless otherwise specified in the applicable pricing supplement, the funding agreement shall be repayable in whole or in part in increments of \$1,000 at the request of the relevant trust at a repayment price equal to 100% of the principal amount thereof to be repaid, together with interest thereon payable to the date of repayment. Exercise of such repayment right by a trust shall be irrevocable.

## **Survivor's Option**

Unless a funding agreement has been declared due and payable prior to its stated maturity date by reason of any event of default thereunder, or has been previously redeemed or otherwise repaid, a trust may request repayment of such funding agreement upon the valid exercise of the survivor's option in the related notes by the authorized representative of the deceased beneficial owner of such notes. If a survivor's option is specified in the notes and the applicable pricing supplement it will be more fully described in the prospectus supplement relating to such notes.

## **Withholding Tax and Payment of Additional Amounts**

All amounts due in respect of each funding agreement will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified in the applicable pricing supplement, we will not pay any additional amounts to the trust in respect of such withholding or deduction, any such withholding or deduction will not give rise to any funding agreement default or any independent right or obligation to redeem such funding agreement and the trust will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such trust's interest in the funding agreement as equitably determined by us.

If it is specified in the applicable pricing supplement and funding agreement that we have agreed to pay additional amounts to the trust to reflect any required withholding or deduction under the funding agreement and we are required, or based on an opinion of independent legal counsel selected by us a material probability exists that we will be required, to pay additional amounts in respect of such withholding or deduction, pursuant to (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the applicable funding agreement, we will have the right to redeem the affected funding agreement by giving not less than 30 and no more than 60 days prior written notice to the trust and by paying to the trust the outstanding principal of, and premium, if any, and accrued but unpaid interest, on, the relevant funding agreement or such other amount as is specified in the applicable pricing supplement. If we redeem the related funding agreement issued to the trust, the related trust will redeem all of the notes of the applicable series as provided in the indenture.

## **Early Redemption for Tax Event**

Each funding agreement will provide that, upon the occurrence of a tax event (as described below), we may redeem such funding agreement by giving not less than 35 and no more than 60 calendar days prior written notice to the applicable trust and by paying to such trust the outstanding principal of, and premium, if any, and accrued but unpaid interest, on, the relevant funding agreement or such other amount as is specified in the applicable pricing supplement. If we redeem a funding agreement, the applicable trust will redeem all of the notes of the series secured by such funding agreement as provided in the indenture. The term "tax event" means that we shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the funding agreement there is more than an insubstantial risk that (i) the trust is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to interest accrued or received on the relevant funding agreement or (ii) the trust is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges.



### **Restrictions on Transfer**

Each funding agreement will contain provisions prohibiting the owner of the funding agreement from transferring or assigning the funding agreement or any right to receive payments under the funding agreement to any other person without our express written consent. In connection with the issuance of a series of notes by the trust, we will consent to the assignment of the related funding agreement that will secure the obligations of the issuer trust under such notes to the indenture trustee.

### **Agreed Tax Treatment**

We and the trust will agree that each funding agreement shall be disregarded for United States federal income tax purposes. The funding agreement will provide that we and the applicable trust each agree to treat the funding agreement, if not disregarded for United States federal income tax purposes, as a debt obligation of ours for United States federal, state and local income and franchise tax purposes.

### **Governing Law**

Each funding agreement will be subject to the laws of the State of Iowa.

## **DESCRIPTION OF THE GUARANTEES**

Set forth below is a summary of the guarantee that will be issued by PFG to each trust in connection with each issuance of a series of notes. This summary is not complete and you should read the detailed provisions of the guarantee. A form of the guarantee is filed as an exhibit to the registration statement (of which this prospectus forms a part) and is incorporated into this prospectus by reference.

### **General**

Under each guarantee, PFG will fully, irrevocably, absolutely and unconditionally guarantee to pay to the trust any payments required to be made by us to the trust under the applicable funding agreement which shall become due and payable regardless of whether such payment is due at maturity, on an interest payment date or as a result of redemption or otherwise (the “scheduled payments”) but shall be unpaid by us (the “guaranteed amounts”). However, in no event shall the guaranteed amounts under a guarantee exceed the deposit of the related funding agreement, plus accrued but unpaid interest and any other amounts due and owing under the funding agreement, less any amounts paid by us to the applicable trust.

In the event we do not make a scheduled payment when due (the “payment notice date”) then the indenture trustee or the trust may present a payment notice in writing to PFG on or after the payment notice date, and PFG will be required to immediately pay the guaranteed amounts.

The trust will collaterally assign and grant a security interest in the guarantee to the indenture trustee as collateral to secure the trust’s obligations under the applicable series of notes.

Each guarantee will be an unsecured, unsubordinated and contingent obligation of PFG ranking equally with all other unsecured and unsubordinated obligations of PFG. PFG is a non-operating holding company, conducting a substantial portion of its business through us. In the event of our insolvency or receivership, PFG may incur limitations in receiving any distributions from us. In such an event, PFG may have limited resources to satisfy its obligations under the guarantees. PFG’s obligations under each guarantee will be effectively subordinated to all existing and future debt and liabilities of PFG’s subsidiaries.

### **Events of Default**

An event of default under each guarantee will occur upon the failure of PFG to perform any of its payment obligations thereunder. The trust and the indenture trustee, on behalf of the holders of the applicable series of notes, have the right to enforce the obligations of PFG under the applicable guarantee and may institute any legal proceeding directly against PFG without first instituting a legal proceeding

## [Table of Contents](#)

against us. Bankruptcy or similar events relating to PFG, the failure of any guarantee to be in full force and effect and any revocation of any guarantee by PFG will not constitute events of default under such guarantee.

### **Termination of the Guarantee**

Each guarantee will terminate and be of no further force and effect with respect to the applicable funding agreement upon the full payment of the scheduled payments or upon the earlier extinguishment of our obligations under the relevant funding agreement.

### **Governing Law**

Each guarantee will be governed by, and construed in accordance with, the laws of the State of New York without regard to conflict of law principles.

### **DESCRIPTION OF THE EXPENSE AND INDEMNITY AGREEMENTS**

This section provides a summary of the material terms and conditions of the separate expense and indemnity agreements entered into between us and the indenture trustee, the custodian, the trust beneficial owner and the trustee (on behalf of itself and each trust to be formed in connection with the issuance of a series of notes) and each expense and indemnity agreement to be entered into with each service provider that may become a provider of services under the programs from time to time. A form of each expense and indemnity agreement have been filed as exhibits to the registration statement (which includes this prospectus) and are incorporated into this prospectus by reference.

Pursuant to each expense and indemnity agreement, we will pay the costs and expenses relating to the offering, sale and issuance of any series of notes and costs, expenses and taxes incurred by each trust other than certain excluded amounts described below and we will pay the costs and expenses of the indenture trustee, the custodian, the trust beneficial owner, the trustee, each trust and each service provider appointed from time to time and will indemnify each of them with respect to certain matters.

Under each expense and indemnity agreement, we will not be obligated to pay any costs, expenses, taxes or other amounts that are considered excluded amounts. Excluded amounts include:

- any payment obligation by a trust to a noteholder under the note;
- any obligation of a trust to the extent such obligation has been paid using funds available to the trust from payments under the relevant funding agreement;
- any cost, loss, damage, claim, action, suit, expense, disbursement, tax, penalty or liability of any kind or nature whatsoever resulting from or relating to any insurance regulatory or other governmental authority asserting that:
  - the notes are participations in the relevant funding agreement or are contracts of insurance; or
  - the offer, purchase, sale and/or transfer of the notes and/or the pledge and collateral assignment of the funding agreement by the trust to the indenture trustee constitute the conduct of the business of insurance or reinsurance or require the trust or holder of notes to be licensed as an insurer, insurance agent or broker;
- any cost, loss, damage, claim, expense, tax, penalty or liability of any kind imposed on a service provider to the trust resulting from the bad faith, misconduct or negligence of such service provider;
- any income taxes or overhead expenses of any service provider; or
- any withholding taxes imposed with respect to payments made under the relevant funding agreement and any additional amounts paid to any noteholder.

Each expense and indemnity agreement will be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles.

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds whose underlying assets include the assets of such plans (collectively, “ERISA plans”), and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA plan’s investments be made in accordance with the documents governing the ERISA plan. Each fiduciary of an ERISA plan should consider the fiduciary standards of ERISA in the context of the ERISA plan’s particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the ERISA plan.

Under United States Department of Labor regulations at 29 C.F.R. § 2510.3-101, as in effect from time to time (the “plan asset regulations”), the assets of a trust may be deemed to be “plan assets” of an ERISA plan or a “plan” such as an individual retirement account or a Keogh plan (as defined in Section 4975(e)(1) of the Code, other than a governmental or church plan described in Section 4975(g)(2) or (3) of the Code) (together with ERISA plans, “plans”) for purposes of ERISA and Section 4975 of the Code if a plan or a person investing “plan assets” of a plan acquires an equity interest in a trust and none of the exceptions contained in the plan asset regulations are applicable. An equity interest is defined under the plan asset regulations as an interest other than an instrument that is treated as indebtedness under applicable local law and has no substantial equity features. There is very little pertinent authority on the issue of what constitutes an equity interest for purposes of the plan asset regulations. Accordingly, whether the notes would be treated as debt or equity for purposes of the plan asset regulations is unclear. Since, however, the holders of notes of a series will have recourse only to the relevant collateral that secures such series of notes, if the notes were treated as equity interests, only the related funding agreement would be treated as assets of any plan holding a note.

Even if the notes are treated as equity interests for purposes of the plan asset regulations, because (a) the relevant trust expects that the funding agreement will be treated as debt, rather than equity, for United States federal tax purposes and (b) the funding agreement should not be deemed to have any “substantial equity features,” none of the assets underlying the funding agreement should be treated as “plan assets” for purposes of the plan asset regulations. Those conclusions are based, in part, upon the traditional debt features of the funding agreement, including the reasonable expectation of purchasers of the notes that the payments due under the funding agreement will be paid when due, as well as the absence of conversion rights, warrants and other typical equity features.

Therefore, subject to the considerations described herein, the notes are eligible for purchase by plans, any entity whose underlying assets include “plan assets” by reason of any plan’s investment in the entity (“plan asset entity”) and any person investing “plan assets” of any plan.

Section 406 of ERISA and Section 4975 of the Code also prohibit plans from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such plans (together, “parties in interest”), unless a statutory or administrative exemption is available. For example, if either we or a trust are a party in interest with respect to a plan (either directly or by reason of our ownership of subsidiaries), the purchase of the notes by or on behalf of the plan would likely be a prohibited transaction under Section 406(a)(1) of ERISA and Section 4975(c)(1) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below). A party in interest that engages in a prohibited transaction may be

## Table of Contents

subject to excise taxes and other penalties and liabilities under ERISA and the Code, unless a statutory or administrative exemption is available.

The United States Department of Labor (“DOL”) has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase and holding of the notes by or on behalf of a plan. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). There can be no assurances that any of these class exemptions or any other exemptions will be available with respect to any particular transaction involving the notes. In addition, a purchaser of the notes should be aware that, even if the conditions specified in one or more of the above-referenced exemptions are met, the scope of the exemptive relief provided by the exemption might not cover all acts which might be construed as prohibited transactions.

Accordingly, the notes may not be purchased or held by any plan, any plan asset entity or any person investing “plan assets” of any plan, unless the purchase and holding of the notes is not a prohibited transaction or is exempt under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or any other prohibited transaction exemption issued by the DOL. Any purchaser of the notes or any interest therein, including in the secondary market, will be deemed to have represented that, among other things, either it is not a plan or other plan asset entity and it is not purchasing the notes on behalf of or with “plan assets” of any plan or other plan asset entity, or its purchase and holding of the notes is exempt under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or another applicable exemption. Such representations shall be deemed to be made each day from the date on which the purchaser purchases the notes through and including the date on which the purchaser disposes of the notes.

Moreover, the notes may not be purchased or held by any plan, any plan asset entity or any person investing “plan assets” of any plan if the trust or any of its affiliates: (a) has investment or administrative discretion with respect to the assets of the plan used to effect such purchase; (b) has authority or responsibility to give, or regularly give, investment advice with respect to such assets for a fee and pursuant to an agreement or understanding that such advice (1) will serve as a primary basis for investment decisions with respect to such assets and (2) will be based on the particular investment needs of such plan; or (c) unless PTCE 95-60, 91-38 or 90-1 applies, is an employer maintaining or contributing to such plan.

Any insurance company proposing to invest assets of its general account in the notes should consider the implications of the United States Supreme Court’s decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86, 114 S. Ct. 517 (1993), in which the United States Supreme Court held that in certain circumstances assets in a life insurance company’s general account are treated as assets of a plan that owns a policy or other contract with such insurance company, as well as the effect of Section 401(c) of ERISA as interpreted by regulations issued by the DOL in January 2000.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing notes on behalf of or with “plan assets” of any plan or plan asset entity consult with their counsel regarding the potential consequences under ERISA and the Code and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14.

Governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code such as Section 503 of the Code. No view is expressed as to whether an investment in the notes (and any continued holding of the notes), or the operation and administration of the trust, is appropriate or permissible for any

## Table of Contents

governmental plan or church plan under Section 503 of the Code, or under any state, local or other law respecting such plan. Any purchaser of the notes or any interest therein, including in the secondary market, will be deemed to have represented that, among other things, either (a) it is not a governmental plan or a church plan or any entity the assets of which are treated as including assets of such plans and it is not purchasing the notes on behalf of or with assets of any such plan or entity or (b) its purchase, holding and disposition of the notes is not in violation of the laws applicable to any such governmental plan or church plan. Such representations shall be deemed to be made each day from the date on which the purchaser purchases the notes through and including the date on which the purchaser disposes of the notes. Fiduciaries of any such plans should consult with their counsel before purchasing any notes.

The sale of any notes to a plan is in no respect a representation by any party or entity that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan.

Notwithstanding the above, with regard to a particular trust, the sale of notes to plans, or a person utilizing the plan assets of plans, might not be allowed, or might only be allowed subject to certain additional conditions, in which case the applicable pricing supplement will disclose the prohibition or such additional conditions.

THE ERISA CONSIDERATIONS SET FORTH ABOVE ARE ONLY INTENDED AS A SUMMARY AND MAY NOT BE APPLICABLE DEPENDING UPON A PLAN'S SPECIFIC FACTS AND CIRCUMSTANCES. PLAN FIDUCIARIES SHOULD CONSULT THEIR OWN ADVISORS WITH RESPECT TO THE ADVISABILITY OF AN INVESTMENT IN THE NOTES, AND POTENTIALLY ADVERSE CONSEQUENCES OF SUCH INVESTMENT, INCLUDING WITHOUT LIMITATION THE POSSIBLE EFFECTS OF CHANGES IN APPLICABLE LAWS.

### **PLAN OF DISTRIBUTION**

This prospectus relates to the offering of notes through the trusts to institutional and retail investors from time to time for sale to or through the agents identified in the applicable prospectus supplement. Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Incorporated, Citigroup Global Markets Inc., Credit Suisse First Boston LLC, Lehman Brothers Inc., Morgan Stanley & Co. Incorporated and UBS Securities LLC have been named as agents (referred to below as "Agents") in the prospectus supplement relating to the offering of notes to institutional investors under our secured medium-term notes program. If we add or remove an Agent from our secured medium-term notes program, the applicable pricing supplement will disclose such addition or removal. Also, Merrill Lynch, Pierce, Fenner & Smith Incorporated has been named as the purchasing agent (also referred to below as an "Agent") in the prospectus supplement relating to the offering of notes to retail investors under our Principal® Life CoreNotes® program.

The distribution of the notes offered under this prospectus may occur in one or more transactions at fixed prices, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices, all of which may change over time. A trust may not issue additional notes after the first and only issuance of its notes.

In connection with the sale of the notes, the Agents may receive from the trust or from purchasers of the notes for whom they may act as agents compensation in the form of discounts, concessions or commissions. The Agents may sell the notes to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the purchasers for whom they may act as agents. The Agents and dealers that participate in the distribution of the notes are "underwriters" within the meaning of the Securities Act of 1933, as amended, with respect to the notes being distributed, the funding agreement purchased by the trust and the guarantee issued to the trust. Any Agents that participate in the offering of the notes will be identified and their compensation will be described in the applicable prospectus supplement or pricing supplement. The applicable prospectus

## Table of Contents

supplement or pricing supplement will also describe the other terms of the offering, including any discounts or concessions allowed or reallocated or paid to dealers.

We and PFG will agree to indemnify, jointly and severally, the Agents against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Agents may be required to make in respect thereof.

We are a statutory issuer of the notes under the Securities Act of 1933, as amended.

In the ordinary course of its business, the Agents and their affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us, PFG and certain of our and its affiliates.

### **LEGAL MATTERS**

Certain matters regarding the notes and their offering will be passed upon:

- for us by either Karen E. Shaff or Nora M. Everett, internal counsel for Principal Life (as to Iowa law);
- for us by John D. Schmidt, internal counsel for Principal Life (as to tax law matters);
- for the trusts, us and PFG by Sidley Austin Brown & Wood LLP (as to New York law matters, as to Delaware law matters, as to United States federal securities and tax law matters and as to certain insurance regulatory matters); and
- for the Agents by Pillsbury Winthrop LLP (as to New York law matters and as to United States federal securities law matters).

Opinions issued in connection with future offerings may be issued by counsel other than those listed above. The name of such counsel other than those listed above will be included in the applicable pricing supplement.

Sidley Austin Brown & Wood LLP has from time to time represented, and continues to represent, one or more of the Agents in connection with matters unrelated to the offering of the notes. Pillsbury Winthrop LLP has from time to time represented, and continues to represent, us in connection with matters unrelated to the offering of the notes.

### **EXPERTS**

The consolidated financial statements and the related consolidated financial statement schedules incorporated in this prospectus by reference from the PFG Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Ernst & Young LLP, independent auditors, as stated in their reports, which are incorporated in this prospectus by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution.**

The following table sets forth those expenses to be incurred by Principal Life Insurance Company in connection with the issuance and distribution of the securities being registered. Except for the Securities and Exchange Commission filing fee, all amounts shown are estimates.

Securities and Exchange Commission registration fee	\$ 323,600
Fees and expenses of trustees	\$ 50,000
Printing and engraving expenses	\$ 200,000
Accountant's fees and expenses	\$ 200,000
Legal fees and expenses	\$ 750,000
Rating agency fees	\$ 400,000
Miscellaneous expenses	\$ 100,000
	<hr/>
Total	\$2,023,600

**Item 15. Indemnification of Directors and Officers.****Principal Life Insurance Company**

The Iowa Business Corporation Act grants Principal Life Insurance Company the power to indemnify its directors and officers against liabilities under certain circumstances. The Amended and Restated Articles of Incorporation and the Amended and Restated By-laws of Principal Life Insurance Company provide for indemnification of directors, officers and employees to the full extent provided by the Iowa Business Corporation Act. The Amended and Restated Articles of Incorporation provide that Principal Life Insurance Company shall indemnify its directors and officers, as provided under the Iowa Business Corporation Act, subject to such limitations as may be established by Principal Life Insurance Company. The Amended and Restated Articles of Incorporation further provide that a director shall not be personally liable to Principal Life Insurance Company or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for a breach of the director's duty of loyalty to Principal Life Insurance Company or its shareholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of the law, (c) for a transaction from which the director derives an improper personal benefit or (d) under Section 490.833 of the Iowa Business Corporation Act (relating to certain unlawful distributions to shareholders).

The Amended and Restated By-laws provide that Principal Life Insurance Company shall indemnify, directly and through insurance coverage, its directors and officers against all damages, awards, legal fees and other expenses reasonably incurred in connection with or resulting from any proceeding because of the director's or officer's position with Principal Life Insurance Company or another entity that the director or officer serves at Principal Life Insurance Company's request. The Amended and Restated By-laws further state that the indemnification provided therein shall not be deemed exclusive and shall be in addition to any rights as may be otherwise provided as a matter of law subject to such limitations as may be established by Principal Life Insurance Company.

**Principal Financial Group, Inc.**

Principal Financial Group, Inc.'s Amended and Restated Certificate of Incorporation provides that its directors will not be liable to Principal Financial Group, Inc. or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that this limitation on or exemption from liability is not permitted by the General Corporation Law of the State of Delaware and any amendments to that law. Principal Financial Group, Inc.'s Amended and Restated By-laws also provide indemnification

## Table of Contents

for its directors and officers to the fullest extent permitted by Delaware law. Principal Financial Group, Inc. is required to indemnify its directors and officers for all judgments, fines, settlements, legal fees and other expenses incurred in connection with pending or threatened legal proceedings because of the director's or officer's position with Principal Financial Group, Inc. or another entity that the director or officer serves at Principal Financial Group, Inc.'s request, subject to various conditions, and to advance funds to its directors and officers to enable them to defend against such proceedings. To receive indemnification, the director or officer must have been successful in the legal proceeding or have acted in good faith and in what was reasonably believed to be a lawful manner in the best interest of Principal Financial Group, Inc.

### **Item 16. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
1.1	Form of Distribution Agreement
4.1	Form of Standard Indenture Terms to be entered into between Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee on behalf of the applicable trust
4.2	Form of Indenture to be entered into between Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee on behalf of the applicable trust (included as Section C to the Omnibus Instrument filed as Exhibit 4.10 hereto)
4.3	Form of Institutional Global Note (Secured Medium-Term Notes) (included as Exhibit A-2 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.4	Form of Institutional Definitive Note (Secured Medium-Term Notes) (included as Exhibit A-3 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.5	Form of Retail Global Note (Principal® Life CoreNotes®) (included as Exhibit A-1 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.6	Form of Standard Trust Terms to be entered into between U.S. Bank Trust National Association, as trustee, and GSS Holdings II, Inc., as trust beneficial owner
4.7	Form of Trust Agreement to be entered into between U.S. Bank Trust National Association, as trustee, and GSS Holdings II, Inc., as trust beneficial owner (included as Section A to the Omnibus Instrument filed as Exhibit 4.10 hereto)
4.8	Form of Funding Agreement to be issued by Principal Life Insurance Company†
4.9	Form of Guarantee to be issued by Principal Financial Group, Inc.†
4.10	Form of Omnibus Instrument
4.11	Form of Closing Instrument
4.12	Form of Custodial Agreement by and among Bankers Trust Company, N.A., as custodian, Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee (on behalf of each trust)
5.1	Opinion of Nora M. Everett, internal counsel for Principal Life Insurance Company
5.2	Opinion of Sidley Austin Brown & Wood LLP
8	Opinion of Sidley Austin Brown & Wood LLP
10.1	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and U.S. Bank Trust National Association, as trustee (on behalf of itself and each trust)†
10.2	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and Citibank, N.A., as indenture trustee, registrar, transfer agent, paying agent and calculation agent†
10.3	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and GSS Holdings II, Inc., as trust beneficial owner†
10.4	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and Bankers Trust Company, N.A., as custodian†
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges



[Table of Contents](#)

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP
23.2	Consent of Nora M. Everett, internal counsel for Principal Life Insurance Company (included in Exhibit 5.1)
23.3	Consent of Sidley Austin Brown & Wood LLP (included in Exhibit 5.2)
23.4	Consent of Sidley Austin Brown & Wood LLP (included in Exhibit 8)
23.5	Consent of Sidley Austin Brown & Wood LLP
24.1	Power of Attorney of Board of Directors and Officers of Principal Life Insurance Company and Principal Financial Group, Inc.†
25.1	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of Citibank, N.A., as indenture trustee under each Indenture†

† Previously filed.

**Item 17. Undertakings.**

*(a) Rule 415 Offering.*

Each undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

*(b) Filings Incorporating Subsequent Exchange Act Documents by Reference.*

Each undersigned registrant hereby undertakes that, for purpose of determining any liability under the Securities Act of 1933, each filing of PFG's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by

## Table of Contents

reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) *Request for Acceleration of Effective Date.*

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of each registrant pursuant to the foregoing provisions, or otherwise, each registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by a registrant of expenses incurred or paid by a director, officer or controlling person, if any, of such registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person, if any, in connection with the securities being registered, such registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, Principal Life Insurance Company (i) certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and (ii) has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Des Moines, State of Iowa, on this 3rd day of March, 2004.

PRINCIPAL LIFE INSURANCE COMPANY

By: \_\_\_\_\_ /s/ MICHAEL H. GERSIE

Name: Michael H. Gersie  
Title: Executive Vice President and Chief Financial Officer  
(duly authorized officer, principal financial officer and principal accounting officer)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
_____ *	Chairman, President and Chief Executive Officer, Director	_____ 
J. Barry Griswell		
_____ /s/ MICHAEL H. GERSIE	Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	_____ 
Michael H. Gersie		
_____ *	Director	_____ 
Betsy J. Bernard		
_____ *	Director	_____ 
Jocelyn Carter-Miller		
_____ *	Director	_____ 
Gary E. Costley		
_____ *	Director	_____ 
David J. Drury		
_____ *	Director	_____ 
C. Daniel Gelatt, Jr.		
_____ *	Director	_____ 
Sandra L. Helton		

[Table of Contents](#)

Signature	Title	Date
*	Director	
Charles S. Johnson		
*	Director	
William T. Kerr		
*	Director	
Richard L. Keyser		
*	Director	
Victor H. Lowenstein		
*	Director	
Arjun K. Mathrani		
*	Director	
Federico F. Pena		
*	Director	
Elizabeth E. Tallett		
*By:	/s/ MICHAEL H. GERSIE	March 3, 2004
	Michael H. Gersie, as Attorney-in-Fact	



[Table of Contents](#)

Signature	Title	Date
*	Director	
Charles S. Johnson		
*	Director	
William T. Kerr		
*	Director	
Richard L. Keyser		
*	Director	
Victor H. Lowenstein		
*	Director	
Arjun K. Mathrani		
*	Director	
Federico F. Pena		
*	Director	
Elizabeth E. Tallett		
*By:	/s/ MICHAEL H. GERSIE	March 3, 2004
	Michael H. Gersie, as Attorney-in-Fact	

## EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Distribution Agreement
4.1	Form of Standard Indenture Terms to be entered into between Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee on behalf of the applicable trust
4.2	Form of Indenture to be entered into between Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee on behalf of the applicable trust (included as Section C to the Omnibus Instrument filed as Exhibit 4.10 hereto)
4.3	Form of Institutional Global Note (Secured Medium-Term Notes) (included as Exhibit A-2 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.4	Form of Institutional Definitive Note (Secured Medium-Term Notes) (included as Exhibit A-3 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.5	Form of Retail Global Note (Principal® Life CoreNotes®) (included as Exhibit A-1 to the Standard Indenture Terms filed as Exhibit 4.1 hereto)
4.6	Form of Standard Trust Terms to be entered into between U.S. Bank Trust National Association, as trustee, and GSS Holdings II, Inc., as trust beneficial owner
4.7	Form of Trust Agreement to be entered into between U.S. Bank Trust National Association, as trustee, and GSS Holdings II, Inc., as trust beneficial owner (included as Section A to the Omnibus Instrument filed as Exhibit 4.10 hereto)
4.8	Form of Funding Agreement to be issued by Principal Life Insurance Company†
4.9	Form of Guarantee to be issued by Principal Financial Group, Inc.†
4.10	Form of Omnibus Instrument
4.11	Form of Closing Instrument
4.12	Form of Custodial Agreement by and among Bankers Trust Company, N.A., as custodian, Citibank, N.A., as indenture trustee, and U.S. Bank Trust National Association, as trustee (on behalf of each trust)
5.1	Opinion of Nora M. Everett, internal counsel for Principal Life Insurance Company
5.2	Opinion of Sidley Austin Brown & Wood LLP
8	Opinion of Sidley Austin Brown & Wood LLP
10.1	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and U.S. Bank Trust National Association, as trustee (on behalf of itself and each trust)†
10.2	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and Citibank, N.A., as indenture trustee, registrar, transfer agent, paying agent and calculation agent†
10.3	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and GSS Holdings II, Inc., as trust beneficial owner†
10.4	Form of Expense and Indemnity Agreement by and between Principal Life Insurance Company and Bankers Trust Company, N.A., as custodian†
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
23.1	Consent of Ernst & Young LLP
23.2	Consent of Nora M. Everett, internal counsel for Principal Life Insurance Company (included in Exhibit 5.1)
23.3	Consent of Sidley Austin Brown & Wood LLP (included in Exhibit 5.2)
23.4	Consent of Sidley Austin Brown & Wood LLP (included in Exhibit 8)
23.5	Consent of Sidley Austin Brown & Wood LLP
24.1	Power of Attorney of Board of Directors and Officers of Principal Life Insurance Company and Principal Financial Group, Inc.†
25.1	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of Citibank, N.A., as indenture trustee under each Indenture†

† Previously filed.

PRINCIPAL LIFE INSURANCE COMPANY

\$4,000,000,000

SECURED MEDIUM-TERM NOTES PROGRAM

PRINCIPAL(R) LIFE CORENOTES(R) PROGRAM

DISTRIBUTION AGREEMENT

March 5, 2004

Merrill Lynch, Pierce, Fenner & Smith  
Incorporated  
Four World Financial Center, North Tower  
New York, New York 10080

ABN AMRO Incorporated  
55 East 52nd Street, 6th Floor  
New York, New York 10055

Citigroup Global Markets Inc.  
388 Greenwich Street  
New York, New York 10013

Credit Suisse First Boston LLC  
11 Madison Avenue  
New York, New York 10010

Lehman Brothers Inc.  
745 Seventh Avenue  
New York, New York 10019

Morgan Stanley & Co. Incorporated  
1585 Broadway  
New York, New York 10036

UBS Securities LLC  
677 Washington Boulevard  
Stamford, Connecticut 06901

Ladies and Gentlemen:

1. Introductory. Each of (a) Principal Life Insurance Company, an Iowa insurance company (the "Company"), and (b) Principal Financial Group, Inc., a Delaware corporation (the

- - - - -  
"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license.

"CoreNotes(R)" is a registered service mark of Merrill Lynch & Co., Inc.



"Guarantor" and, together with the Company, the "Principal Entities"), in connection with the Company's Secured Medium-Term Notes Program (the "Institutional Program") and the Principal(R) Life CoreNotes(R) Program (the "Retail Program" and, together with the Institutional Program, the "Programs"), confirms its agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated and each other institution named on Schedule A hereto and any institution appointed as an agent pursuant to Section 19 hereof (each, an "Agent", and, collectively, the "Agents") with respect to the secured medium-term notes due between nine months and thirty years from the date of issuance under the Programs (the "Notes") to be offered by separate and distinct special purpose common law trusts from time to time (each, a "Trust" and, collectively, the "Trusts"), each of which shall be formed in a jurisdiction located in the United States of America pursuant to a trust agreement, as amended or modified from time to time, which will adopt and incorporate the standard trust terms (each, a "Trust Agreement" and, collectively, the "Trust Agreements"), in each case between U.S. Bank Trust National Association, as trustee (the "Trustee"), and GSS Holdings II, Inc., a Delaware corporation, as trust beneficial owner (the "Trust Beneficial Owner").

From time to time, upon the formation of a new Trust, in connection with the offer and sale of a particular series of Notes by such Trust, upon execution and delivery by such Trust and the applicable Agent or Agents of the terms agreement set forth in Section D of the omnibus instrument (the "Terms Agreement") to be executed by such Trust and the applicable Agent or Agents, among others (the "Omnibus Instrument"), such Trust shall become a party hereto in relation to such series of Notes (the time of such execution and delivery referred to herein as such Trust's "Trust Effective Time"), with all the authority, rights, powers, duties and obligations of a Trust as if originally named as a Trust hereunder. Any agreement, covenant, acknowledgment, representation or warranty made by a Trust hereunder shall be deemed to have been made by each Trust at its Trust Effective Time, unless another time or times are specified herein, in which case such specified time or times shall instead apply.

Each series of Notes is to be issued pursuant to an indenture, as amended or modified from time to time, which will adopt and incorporate the standard indenture terms (each, an "Indenture" and, collectively, the "Indentures"), between the relevant Trust and Citibank, N.A., as indenture trustee (the "Indenture Trustee"). Each Trust shall issue one series of Notes. As of the date of this Agreement, the Trusts are authorized to issue collectively up to U.S. \$4,000,000,000 aggregate initial offering price of Notes (or its equivalent as determined in Section 5(a)(xv) hereof) through the Agents, as principal or agent, pursuant to the terms of this Agreement. It is understood, however, that the Company, as depositor of the Funding Agreements (as defined herein), may from time to time increase the aggregate amount of Notes and that such additional Notes may be sold through the Agents, as principal or agent, pursuant to the terms of this Agreement, all as though the issuance of such Notes were authorized as of the date of this Agreement.

Each Trust will use the proceeds from the sale of its related series of Notes to purchase a funding agreement (each, a "Funding Agreement" and, collectively, the "Funding Agreements") from the Company. The Guarantor will fully and unconditionally guarantee the payment obligations of the Company under the Funding Agreement relating to the applicable series of Notes pursuant to a guarantee agreement between the Guarantor and the relevant Trust (each, a "Guarantee" and, collectively, the "Guarantees"). The series of Notes issued by a Trust will be secured by (i) the relevant Funding Agreement that will be assigned by such Trust to the Indenture

Trustee pursuant to the relevant Indenture with respect to such series of Notes for the benefit of the holders of such series of Notes and any other person for whose benefit the Indenture Trustee is or will be holding the relevant Collateral (as defined in the relevant Indenture) and (ii) the relevant Guarantee that will be assigned by such Trust to the Indenture Trustee pursuant to such Indenture with respect to such series of Notes for the benefit of the holders of such series of Notes and any other person for whose benefit the Indenture Trustee is or will be holding the relevant Collateral. In connection with the sale of its series of Notes, the Company and the relevant Trust will prepare a pricing supplement (the "Pricing Supplement") including or incorporating by reference a description of the terms of such series of Notes, the terms of the offering and a description of such Trust.

If any institution is appointed as an Agent only with respect to a particular series of Notes, such institution shall only be an Agent with respect to such series of Notes. This Agreement provides for the offer of Notes by one or more Trusts (x) to one or more Agents as principal for resale to investors and other purchasers and (y) directly to investors (as may from time to time be agreed to by the Company, such Trust and the relevant Agent), in which case the relevant Agent will act as an agent of such Trust in soliciting offers for the purchase of Notes.

Each of the Principal Entities has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (Nos. 333-110499 and 333-110499-01) and pre-effective amendments nos. 1 and 2 thereto for the registration of Funding Agreements, Notes to be issued through one or more Trusts and the Guarantees under the Securities Act of 1933, as amended (the "1933 Act"), and the offering thereof from time to time in accordance with Rule 415 of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations"). Such registration statement (as so amended, if applicable) has been declared effective by the Commission and the form of Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended (the "1939 Act"). Each of the Principal Entities has filed such post-effective amendments thereto as may be required prior to any acceptance by a Trust of an offer for the purchase of a series of Notes, and each such post-effective amendment has been declared effective by the Commission. Such registration statement (as so amended, if applicable) is referred to herein as the "Registration Statement"; and the final prospectus and all applicable amendments or supplements thereto (including the applicable final prospectus supplement and the Pricing Supplement relating to the offering of a particular series of Notes), in the form first furnished to the applicable Agent(s) for use in confirming sales of such series of Notes, are collectively referred to herein as the "Prospectus"; provided, however, that all references to the "Registration Statement" and the "Prospectus" shall also be deemed to include all documents incorporated therein by reference pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"), prior to any acceptance by a Trust of an offer for the purchase of a series of Notes; provided, further, that if the Principal Entities file a registration statement with the Commission pursuant to Rule 462(b) of the 1933 Act Regulations (the "Rule 462(b) Registration Statement"), or any further registration statement for the purpose of registering additional Notes and in connection with which this Agreement is included or incorporated by reference as an exhibit, then, after such filing, all references to the "Registration Statement" shall also be deemed to include the Rule 462(b) Registration Statement or any such further registration statement or statements. A "preliminary prospectus" shall be deemed to refer to any prospectus used before the Registration Statement became effective and any prospectus furnished by the Principal Entities after the Registration

Statement became effective and before any acceptance by a Trust of an offer for the purchase of a series of Notes which omitted information to be included upon pricing in a form of prospectus filed with the Commission pursuant to Rule 424(b) of the 1933 Act Regulations. For purposes of this Agreement, all references to the Registration Statement, Prospectus or preliminary prospectus or to any amendment or supplement thereto shall be deemed to include any copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

All references in this Agreement to financial statements and schedules and other information which is "disclosed", "contained", "included" or "stated" (or other references of like import) in the Registration Statement, Prospectus or preliminary prospectus shall be deemed to include all such financial statements and schedules and other information which is incorporated by reference in the Registration Statement, Prospectus or preliminary prospectus, as the case may be; and all references in this Agreement to amendments or supplements to the Registration Statement, Prospectus or preliminary prospectus shall be deemed to include the filing of any document under the 1934 Act which is incorporated by reference in the Registration Statement, Prospectus or preliminary prospectus, as the case may be.

## 2. Appointment as Agent.

(a) Appointment. Subject to the terms and conditions stated herein, the Company and each Trust hereby agree that Notes will be sold to or through the Agents. Each of the Company and each Trust agrees that it will not appoint any other agents to act on the Trust's behalf, or to assist the Trust, in the placement of the Notes; provided, however, that with respect to transactions in which the sales of Notes will be targeted to institutional purchasers under the Institutional Program, the Company, the Guarantor and a Trust may enter into arrangements with other agent(s) not a party to this Agreement provided that such agent(s) enter into an agreement with terms substantially identical to those contained herein. Each of the Company and each Trust agrees that it hereby appoints only Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Retail Agent") to act exclusively on such Trust's behalf or to assist such Trust in connection with transactions in which the sale of Notes will be targeted to retail purchasers under the Retail Program. For purposes of this Agreement, all references to any Agent shall be deemed to include the Retail Agent, unless the context otherwise requires.

(b) Sale of Notes. The Trusts shall not sell or approve the solicitation of offers for the purchase of Notes in excess of the amount which shall be authorized by the Company from time to time or in excess of the aggregate initial offering price of Notes registered pursuant to the Registration Statement. The Agents shall have no responsibility for maintaining records with respect to the aggregate initial offering price of Notes sold, or of otherwise monitoring the availability of Notes for sale, under the Registration Statement.

(c) Purchases as Principal. The Agents shall not have any obligation to purchase Notes from any Trust as principal. However, absent an agreement between an Agent and the Company and the relevant Trust that such Agent shall be acting solely as an agent for such Trust, such Agent shall be deemed to be acting as principal in connection with any offering of Notes by such Trust through such Agent. Accordingly, the Agents, individually or in a syndicate, may agree from time to time to purchase Notes from a Trust as principal for resale to investors and other purchasers

determined by such Agents. Any purchase of Notes from a Trust by an Agent as principal shall be made in accordance with Section 4(a) hereof.

(d) Solicitations as Agent. If agreed upon between an Agent and a Trust, such Agent, acting solely as an agent for such Trust and not as principal, will use its reasonable efforts to solicit offers for the purchase of Notes. Such Agent will communicate to such Trust, orally, each offer for the purchase of Notes solicited by it on an agency basis other than those offers rejected by such Agent. Such Agent shall have the right, in its discretion reasonably exercised, to reject any offer for the purchase of Notes, in whole or in part, and any such rejection shall not be deemed a breach of its agreement contained herein. Such Trust may accept or reject any offer for the purchase of Notes, in whole or in part. Such Agent shall make reasonable efforts to assist such Trust in obtaining performance by each purchaser whose offer for the purchase of Notes has been solicited by it on an agency basis and accepted by such Trust. Unless agreed to in writing by the Company, such Trust and such Agent, such Agent shall not have any liability to such Trust in the event that any such purchase is not consummated for any reason. If such Trust shall default on its obligation to deliver Notes to a purchaser whose offer has been solicited by such Agent on an agency basis and accepted by such Trust, the Company and such Trust, jointly and severally, shall (i) hold such Agent harmless against any loss, claim or damage arising from or as a result of such default by such Trust and (ii) pay to such Agent any commission to which it would otherwise be entitled absent such default.

(e) Reliance. The Principal Entities, each Trust and the Agents agree that (i) any series of Notes purchased from a Trust by one or more Agents as principal shall be purchased, and any series of Notes the placement of which an Agent arranges as an agent of such Trust shall be placed by such Agent, in reliance on the representations, warranties, covenants and agreements of such Trust and the Principal Entities contained herein and in the Terms Agreement and on the terms and conditions and in the manner provided herein and therein, (ii) any Funding Agreement sold by the Company, and any Guarantee issued by the Guarantor in connection with the sale of such Funding Agreement, to such Trust in connection with the issuance of any series of Notes will be sold in reliance on the representations, warranties, covenants and agreements of such Trust and the Agent(s) (to or through whom such series of Notes is being sold), as applicable, contained herein and in the Terms Agreement and on the terms and conditions and in the manner provided herein and therein, and (iii) any series of Notes issued by such Trust to or through the applicable Agent(s) will be issued in reliance on the covenants and agreements of each such Agent contained herein and in the Terms Agreement and on the terms and conditions and in the manner provided herein and therein.

### 3. Representations and Warranties; Additional Certifications.

(a) Representations and Warranties of the Principal Entities. Each of the Principal Entities represents and warrants, jointly and severally, to each Agent as of the date of this Agreement, to the applicable Agent(s) as of the date of each acceptance of an offer by the relevant Trust for the purchase of Notes (whether to such Agent as principal or through such Agent as agent), to the applicable Agent(s) as of the date of each delivery of Notes (whether to such Agent as principal or through such Agent as agent) (the date of each such delivery to such Agent as principal is referred to herein as a "Settlement Date"), and to each Agent as of any time that the Registration

Statement or the Prospectus shall be amended or supplemented (each of the times referenced above is referred to herein as a "Principal Entities Representation Date"), as follows:

(i) Registration Statement and Prospectus. Each of the Principal Entities is eligible to use Form S-3 under the 1933 Act. The Registration Statement (including any Rule 462(b) Registration Statement) has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement (including any Rule 462(b) Registration Statement) has been issued under the 1933 Act and no proceedings for that purpose have been instituted or are pending or, to the knowledge of the Principal Entities, are threatened by the Commission, and any request on the part of the Commission for additional information has been complied with. The form of Indenture has been duly qualified under the 1939 Act. At the respective times that the Registration Statement, any Rule 462(b) Registration Statement and any post-effective amendment thereto (including the filing of the Guarantor's most recent Annual Report on Form 10-K with the Commission) became effective and at each Principal Entities Representation Date, the Registration Statement (including any Rule 462(b) Registration Statement) and any amendments thereto complied and will comply in all material respects with the requirements of the 1933 Act, the 1933 Act Regulations, the 1934 Act, the rules and regulations of the Commission under the 1934 Act (the "1934 Act Regulations"), the 1939 Act and the rules and regulations of the Commission under the 1939 Act and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Each preliminary prospectus and Prospectus filed as part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the 1933 Act, complied when so filed in all material respects with the 1933 Act and the 1933 Act Regulations. Each preliminary prospectus and the Prospectus delivered to the applicable Agent(s) for use in connection with the offering of Notes are identical to any electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. At the date of this Agreement, at the date of the Prospectus and each amendment or supplement thereto and at each Principal Entities Representation Date, neither the Prospectus nor any amendment or supplement thereto included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this Section 3(a)(i) shall not apply to (A) statements in or omissions from the Registration Statement or the Prospectus made in reliance upon and in conformity with information furnished to the Principal Entities in writing by the Agents expressly for use in the Registration Statement or the Prospectus or (B) that part of the Registration Statement which constitutes the Statement of Eligibility and Qualification (Form T-1) under the 1939 Act of the Indenture Trustee.

(ii) Incorporated Documents. The documents incorporated or deemed to be incorporated by reference in the Prospectus, at the time they were filed with the Commission, complied in all material respects with the requirements of the 1934 Act and the 1934 Act Regulations and, at the time they were filed with the Commission, did not include an untrue statement of a material fact or omit to state a material fact necessary in

order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(iii) Independent Accountants. The accountants who certified the financial statements and any supporting schedules thereto included in the Registration Statement and the Prospectus are independent public accountants with respect to the Guarantor as required by the 1933 Act and the 1933 Act Regulations.

(iv) Ratings. The Programs under which the Notes are issued are rated Aa3 by Moody's Investors Service, Inc. or its successor ("Moody's") or such other rating set forth in the applicable Pricing Supplement and as to which the Principal Entities shall have most recently notified the Agents pursuant to Section 5(a)(i) hereof. The Programs under which the Notes are issued, as well as the Notes, as applicable, are rated AA by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., or its successor ("S&P" and, together with Moody's, the "Rating Agencies") or such other rating set forth in the applicable Pricing Supplement and as to which the Principal Entities shall have most recently notified the Agents pursuant to Section 5(a)(i) hereof.

(v) Due Organization, Good Standing and Due Qualification. The Company has been duly organized and is validly existing as an insurance company in good standing under the laws of the State of Iowa with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into this Agreement and consummate the transactions contemplated by the Prospectus. The Guarantor has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus and to enter into this Agreement and consummate the transactions contemplated by the Prospectus. Each of the Principal Entities is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so qualify or be in good standing would not reasonably be expected to result in a material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Guarantor and its subsidiaries considered as one enterprise or on the power or ability of the Principal Entities to perform their respective obligations under the Principal Program Documents (as defined herein) to which either of the Principal Entities is a party or to consummate the transactions contemplated in the Prospectus (a "Guarantor Material Adverse Effect"). All of the issued and outstanding shares of capital stock of each of the Principal Entities have been duly authorized and are validly issued, fully paid and non-assessable. None of the outstanding shares of capital stock of either Principal Entity were issued in violation of preemptive or other similar rights of any securityholder of such Principal Entity.

(vi) Financial Statements. The consolidated financial statements of the Guarantor included in any report or filing under the 1934 Act incorporated by reference into the Registration Statement and the Prospectus, together with the related schedules and notes, as well as those financial statements, schedules and notes of any other entity included

in the Registration Statement and the Prospectus, present fairly the consolidated financial position of the Guarantor and its subsidiaries, or such other entity, as the case may be, at the dates indicated, to the extent required under the 1934 Act, and the consolidated statement of operations, stockholders' equity and cash flows of the Guarantor and its subsidiaries, or such other entity, as the case may be, for the periods specified. Such financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") applied on a consistent basis throughout the periods involved. The supporting schedules, if any, included in the Registration Statement and the Prospectus present fairly in accordance with GAAP the information required to be stated therein. The selected financial data, the summary financial information and the condensed consolidating financial information included in the Registration Statement and the Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included in the Registration Statement and the Prospectus. Any pro forma consolidated financial statements of the Guarantor and its subsidiaries and the related notes thereto included in the Registration Statement and the Prospectus present fairly the information shown therein, have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein.

(vii) No Material Changes. Since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as otherwise stated therein, there has been no event or occurrence that would result in a Guarantor Material Adverse Effect.

(viii) Authorization, etc. of this Agreement, each Guarantee and each Funding Agreement. This Agreement has been, and each Guarantee when issued will be, duly authorized, executed and delivered by the Guarantor and, assuming that each party to this Agreement and each Guarantee, other than the Principal Entities, as applicable, has duly authorized, executed and delivered such agreement, then each is or will be a valid and legally binding agreement of the Guarantor, enforceable against the Guarantor in accordance with its terms, except (A) as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law) and (B) that no representation or warranty is made with respect to the enforceability of Section 9 hereof. This Agreement has been, and each Funding Agreement when issued will be, duly authorized, executed and delivered by the Company and, assuming that each party to this Agreement and each Funding Agreement, other than the Principal Entities, as applicable, has duly authorized, executed and delivered such agreement, then each is or will be a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except (x) as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a

proceeding in equity or at law) and (y) that no representation or warranty is made with respect to the enforceability of Section 9 hereof.

(ix) Absence of Defaults and Conflicts. Neither the Guarantor nor the Company is in violation of the provisions of its charter or by-laws or in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Guarantor or the Company is a party or by which it or any of them may be bound or to which any of the property or assets of the Guarantor or the Company is subject (collectively, the "Guarantor Agreements and Instruments"), except for such defaults that would not result in a Guarantor Material Adverse Effect. The execution, delivery and performance of this Agreement, each Guarantee, each Funding Agreement and any other agreement or instrument entered into or issued or to be entered into or issued by the Principal Entities in connection with the transactions contemplated by the Prospectus (collectively, the "Principal Program Documents"), the consummation of the transactions contemplated by the Prospectus (including the issuance and sale of the Notes and the use of proceeds therefrom as described in the Prospectus) and the compliance by the Principal Entities with their respective obligations thereunder do not constitute a breach, violation or default which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Guarantor or the Company under, or result in the creation or imposition of any lien, charge or encumbrance upon any assets, properties or operations of the Guarantor or the Company pursuant to, any Guarantor Agreements and Instruments, except, in each case, to the extent such conflict, breach, default, event or condition would not result in a Guarantor Material Adverse Effect, nor will such actions result in any violation of the provisions of the charter or by-laws of the Guarantor or the Company or, except to the extent such violation would not result in a Guarantor Material Adverse Effect, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over the Guarantor or the Company or any of their assets, properties or operations.

(x) Absence of Proceedings. There is no action, suit, proceeding or investigation pending, of which the Principal Entities have received written notice or service of process, before or brought by any court or governmental agency or body, domestic or foreign, or, to the knowledge of the Principal Entities, threatened, against or affecting the Guarantor or the Company which is required to be disclosed in the Registration Statement and the Prospectus (other than as stated therein), or which would individually or in the aggregate result in a Guarantor Material Adverse Effect.

(xi) Possession of Licenses and Permits. Each of the Guarantor and the Company possesses such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by them, except for any such jurisdiction in which the failure to be so licensed or authorized would not have a Guarantor Material Adverse Effect. Each of the Guarantor and the



Company is in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, result in a Guarantor Material Adverse Effect. Except as otherwise set forth in the Prospectus, neither the Guarantor nor the Company has received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Guarantor Material Adverse Effect.

(xii) No Filings, Regulatory Approvals, etc. No filing with, or approval, authorization, consent, license, registration, qualification, if any as may be required, order or decree of, any court or governmental authority or agency, domestic or foreign, is necessary or required for the performance by each of the Principal Entities of its obligations under this Agreement and the Principal Program Documents, except (a) as otherwise set forth in the Prospectus, (b) as have been obtained or rendered, as the case may be, and (c) as may be necessary or required under state or foreign securities or blue sky laws or any rules or regulations of any securities exchange.

(xiii) Investment Company Act. Neither the Company nor the Guarantor is, or upon the issuance and sale of the Notes as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus will be, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(b) Representations and Warranties of the Trusts. Each Trust represents and warrants, only as to itself, to each applicable Agent as of its Trust Effective Time, as of the date of each acceptance of an offer by such Trust for the purchase of its series of Notes (whether to such Agent as principal or through such Agent as agent) and as of the date of each delivery of Notes (whether to such Agent as principal or through such Agent as agent) (each of the times referenced above is referred to herein as a "Trust Representation Date"), as follows:

(i) Due Formation and Good Standing. Such Trust is a common law trust, duly formed in the United States of America under the laws of its jurisdiction pursuant to its relevant Trust Agreement, is validly existing and is in good standing as a common law trust under the laws of its jurisdiction.

(ii) No Material Changes. Since the respective dates as of which information is given in the Registration Statement and the Prospectus or the Trust Effective Time, whichever is later, except as otherwise stated therein, (A) there has been no event or occurrence that would reasonably be expected to result in a material adverse change in the condition, financial or otherwise, of such Trust or on the power or ability of such Trust to perform its obligations under the Trust Program Documents (as defined herein) to which such Trust is a party or to consummate the transactions contemplated in the Prospectus (as to each Trust, a "Trust Material Adverse Effect") and (B) there have been no transactions entered into by such Trust, other than those in the ordinary course of business, which are material with respect to such Trust.

(iii) Authorization, etc. of this Agreement, the relevant Indenture and the relevant Notes. This Agreement and the relevant Indenture have been or will be duly authorized, executed and delivered by such Trust and, assuming that each party to this Agreement and the relevant Indenture, other than such Trust, has duly authorized, executed and delivered such agreement, then each is or will be a valid and legally binding agreement of such Trust, enforceable against such Trust in accordance with its terms, as applicable, except (A) as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law), (B) as enforcement thereof may be limited by requirements that a claim with respect to any Notes issued under the relevant Indenture that are payable in a foreign or composite currency (or a foreign or composite currency judgment in respect of such claim) be converted into U.S. dollars at a rate of exchange prevailing on a date determined pursuant to applicable law or by governmental authority to limit, delay or prohibit the making of payments outside the United States and (C) that no representation or warranty is made with respect to the enforceability of Section 9 hereof. The relevant Notes have been duly authorized by such Trust for offer, sale, issuance and delivery pursuant to this Agreement and, when issued, authenticated and delivered in the manner provided for in the relevant Indenture and delivered against payment of the consideration therefor, will constitute valid and legally binding obligations of such Trust in accordance with their terms, enforceable against such Trust in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally or by general equitable principles (regardless of whether enforcement is considered in a proceeding in equity or at law). Subject to the foregoing, the relevant Notes, when executed by such Trust and issued, authenticated and delivered in the manner provided for in the relevant Indenture and delivered against payment of the consideration therefor, will be entitled to the benefits of the relevant Indenture.

(iv) Absence of Defaults and Conflicts. Such Trust is not (x) in violation of its Trust Agreement or (y) in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, loan or credit agreement, note, lease or other agreement or instrument to which such Trust is a party or by which it may be bound or to which any of the property or assets of such Trust is subject (collectively, as to each Trust, the "Trust Agreements and Instruments"), except for such defaults that would not result in a Trust Material Adverse Effect. The (A) execution, delivery and performance of this Agreement, the relevant Indenture, the relevant Notes and any other agreement or instrument entered into or issued or to be entered into or issued by such Trust in connection with the transactions contemplated by the Prospectus, (B) performance of the relevant Trust Agreement (all agreements and instruments referenced in Section 3(b)(iv)(A) hereof and this Section 3(b)(iv)(B) referred to herein, as to each Trust, as the "Trust Program Documents"), (C) consummation of the transactions contemplated in the Prospectus (including the issuance and sale of the relevant Notes and the use of proceeds therefrom as described in the Prospectus) and (D) compliance by such Trust with its obligations under the Trust Program Documents do not constitute a breach, violation or

default which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by such Trust under, or, except as contemplated by the Trust Program Documents, result in the creation or imposition of any lien, charge or encumbrance upon any assets, properties or operations of such Trust pursuant to, any Trust Agreements and Instruments, nor will such actions result in any violation of the relevant Trust Agreement or, except to the extent that any such violation would not result in a Trust Material Adverse Effect, any applicable law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over such Trust or any of its assets, properties or operations.

(v) Absence of Proceedings. There is no action, suit, proceeding or investigation pending, of which such Trust has received written notice or service of process, before or brought by any court or governmental agency or body, domestic or foreign, or, to the knowledge of such Trust, threatened, against or affecting such Trust which is required to be disclosed in the Registration Statement and the Prospectus (other than as stated therein), or which would individually or in the aggregate result in a Trust Material Adverse Effect.

(vi) No Filings, Regulatory Approvals, etc. Except as otherwise set forth in the Prospectus, no filing with, or approval, authorization, consent, license, registration, qualification, if any as may be required, order or decree of, any court or governmental authority or agency, domestic or foreign, is necessary or required for the performance by such Trust of its obligations under this Agreement and the Trust Program Documents, except such as have been obtained or rendered, as the case may be, and except as may be necessary or required under state or foreign securities or blue sky laws.

(vii) Investment Company Act. Such Trust is not, nor will it be upon the issuance and sale of its series of Notes as herein contemplated and the application of the net proceeds therefrom as described in the Prospectus, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(viii) Notes Listed on any Stock Exchange. If specified in a Pricing Supplement, such Trust's series of Notes described in such Pricing Supplement shall be listed on the securities exchange designated in the Pricing Supplement.

(ix) Possession of Licenses and Permits. Such Trust possesses such Governmental Licenses issued by the appropriate federal, state, local or foreign regulatory agencies or bodies necessary to conduct the business now operated by it, except for any such jurisdiction in which the failure to be so licensed or authorized would not have a Trust Material Adverse Effect. Such Trust is in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, result in a Trust Material Adverse Effect. Except as otherwise set forth in the Prospectus, such Trust has not received any notice of proceedings relating to the revocation or modification of any such Governmental Licenses which, singly or in the aggregate, if the

subject of an unfavorable decision, ruling or finding, would result in a Trust Material Adverse Effect.

(c) Additional Certifications. Any certificate signed by any officer of the Trustee, on behalf of a Trust, or the Principal Entities and delivered to one or more Agents or to counsel for the Agents in connection with an offering of Notes to one or more Agents as principal or through an Agent as agent shall be deemed a representation and warranty by such Trust or the Principal Entities, as the case may be, to such Agent or Agents as to the matters covered thereby on the date of such certificate.

#### 4. Purchases as Principal; Solicitations as Agent; Other Sales.

(a) Purchases as Principal. Notes purchased from a Trust by the Agents, individually or in a syndicate, as principal shall be made in accordance with terms agreed upon between such Agent or Agents and the Company and such Trust (which terms, unless otherwise agreed, shall, to the extent applicable, include those terms specified in the Pricing Supplement and shall be agreed upon orally, with written confirmation to be in the form of the Terms Agreement). Unless the context otherwise requires, references herein to "this Agreement" shall include the applicable Terms Agreement of one or more Agents to purchase Notes from a Trust as principal. Each purchase of Notes by the Agents (other than Merrill Lynch, Pierce, Fenner & Smith Incorporated, acting in its capacity as the Retail Agent), unless otherwise agreed, shall be at a discount from the principal amount of each such Note equivalent to the applicable commission set forth in Schedule B hereto. Each purchase of Notes by Merrill Lynch, Pierce, Fenner & Smith Incorporated, acting in its capacity as the Retail Agent, unless otherwise agreed, shall be at a discount from the principal amount of each such Note equivalent to the applicable commission set forth in Schedule C hereto. The Agents may engage the services of any broker or dealer in connection with the resale of the Notes purchased by them as principal and may allow all or any portion of the discount received from a Trust in connection with such purchases to such brokers or dealers.

If a Trust and two or more Agents enter into a Terms Agreement pursuant to which such Agents agree to purchase Notes from such Trust as principal and one or more of such Agents shall fail at the Settlement Date to purchase the Notes which it or they are obligated to purchase (the "Defaulted Notes"), then the nondefaulting Agents shall have the right, within 24 hours thereafter, to make arrangements for one of them or one or more other Agents or underwriters to purchase all, but not less than all, of the Defaulted Notes in such amounts as may be agreed upon and upon the terms herein set forth; provided, however, that if such arrangements shall not have been completed within such 24-hour period, then:

(i) if the aggregate principal amount of Defaulted Notes does not exceed 10% of the aggregate principal amount of Notes to be so purchased by all of such Agents on the Settlement Date, the nondefaulting Agents shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective initial underwriting obligations bear to the underwriting obligations of all nondefaulting Agents; or

(ii) if the aggregate principal amount of Defaulted Notes exceeds 10% of the aggregate principal amount of Notes to be so purchased by all of such Agents on the Settlement Date, such Terms Agreement shall terminate without liability on the part of any nondefaulting Agent.

No action taken pursuant to this paragraph shall relieve any defaulting Agent from liability in respect of its default. In the event of any such default which does not result in a termination of such agreement, either the nondefaulting Agents or the Company and such Trust shall have the right to postpone the Settlement Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or the Prospectus or in any other documents or arrangements.

(b) Solicitations as Agent. On the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, when agreed by the Company and a Trust and an Agent, such Agent, as an agent of the Company and such Trust, will use its reasonable efforts to solicit offers for the purchase of Notes upon the terms set forth in the Prospectus. Such Agent is authorized to appoint any sub-agent with respect to solicitations of offers to purchase Notes; provided, however, that any such appointment of a sub-agent shall be subject to the prior consent of such Trust and the Company. All Notes sold through an Agent as agent will be sold at 100% of their principal amount unless otherwise agreed upon between the Company and such Trust and such Agent.

The Trust reserves the right, in its sole discretion, to suspend solicitation of offers for the purchase of Notes through an Agent, as an agent of the Company and such Trust, commencing at any time for any period of time or permanently. As soon as practicable after receipt of written instructions to such effect from such Trust, such Agent will suspend solicitation of offers for the purchase of Notes from the Company through such Trust until such time as the Company and such Trust have advised such Agent that such solicitation may be resumed.

Each Trust agrees to pay each Agent, other than Merrill Lynch, Pierce, Fenner & Smith Incorporated, acting in its capacity as the Retail Agent, as consideration for soliciting offers to purchase Notes as an agent of the Company and such Trust, a commission, in the form of a discount, equal to the applicable percentage of the principal amount of each Note sold by such Trust as a result of any such solicitation made by such Agent, as set forth in Schedule B hereto.

Each Trust agrees to pay Merrill Lynch, Pierce, Fenner & Smith Incorporated, acting in its capacity as the Retail Agent, as consideration for soliciting offers to purchase Notes as an agent of the Company and such Trust, a commission, in the form of a discount, equal to the applicable percentage of the principal amount of each Note sold by such Trust as a result of any such solicitation made by the Retail Agent, as set forth in Schedule C hereto.

(c) Administrative Procedures. The purchase price, interest rate or formula, maturity date and other terms of the relevant Notes shall be agreed upon between the relevant Trust and the applicable Agent(s) and specified in a Pricing Supplement to be prepared by the Company in connection with each sale of Notes. Except as otherwise specified in the applicable Pricing Supplement, the Notes will be issued in denominations of U.S. \$1,000 or any larger amount that is an integral multiple of U.S. \$1,000. Administrative procedures with respect to the issuance and

sale of the relevant Notes (the "Procedures") shall be agreed upon from time to time among the relevant Trust, the Principal Entities, the Agent(s) and the Indenture Trustee. The Agents and each Trust agree to perform, and each Trust agrees to cause the Indenture Trustee to perform, and the Principal Entities agree to perform, their respective duties and obligations specifically provided to be performed by them in the Procedures.

(d) Obligations Several. The Company and each Trust acknowledge that the obligations of the Agents under this Agreement are several and not joint.

#### 5. Covenants.

(a) Covenants of the Principal Entities. Each of the Principal Entities covenants and agrees with each Agent as follows:

(i) Notice of Certain Events. Each of the Principal Entities will notify the Agents immediately, and confirm such notice in writing, of (A) the effectiveness of any post-effective amendment to the Registration Statement or the filing of any amendment or supplement to the Prospectus (other than any amendment or supplement thereto providing solely for the determination of the variable terms of the Notes), (B) the receipt of any comments from the Commission with respect to the Registration Statement and the Prospectus, (C) any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, (D) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, or of any order preventing or suspending the use of any preliminary prospectus or Prospectus, or of the initiation of any proceedings for that purpose or (E) any change in the rating assigned by any nationally recognized statistical rating organization to the Programs or the Notes, or the public announcement by any nationally recognized statistical rating organization that it has under surveillance or review, with possible negative implications, its rating of the Programs or the Notes, or the withdrawal by any nationally recognized statistical rating organization of its rating of the Programs or the Notes. With respect to the Registration Statement and the Prospectus, each of the Principal Entities will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible moment.

(ii) Filing or Use of Amendments. Each of the Principal Entities will give the Agents advance notice of its intention to file or prepare any additional registration statement with respect to the registration of additional Notes, Funding Agreement(s) or Guarantee(s), as the case may be, any amendment to the Registration Statement (including any filing under Rule 462(b) of the 1933 Act Regulations) or any amendment or supplement to the prospectus included in the Registration Statement at the time it became effective or to the Prospectus (other than an amendment or supplement thereto providing solely for the determination of the variable terms of the Notes), in each case, pursuant to the 1933 Act, and will furnish to the Agents copies of any such document a reasonable amount of time prior to such proposed filing or use, as the case may be, and will not file any such document to which the Agents or counsel for the Agents shall reasonably object in writing unless, in

the judgment of the Principal Entities and their counsel, such amendment or supplement is necessary to comply with law.

(iii) Revisions of Prospectus -- Material Changes. Except as otherwise provided in Section 5(a)(v) hereof, if at any time during the term of this Agreement any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Agents or counsel for the Principal Entities, to amend the Registration Statement in order that the Registration Statement will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or to amend or supplement the Prospectus in order that the Prospectus will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, or if it shall be necessary, in the opinion of either such counsel, to amend the Registration Statement or amend or supplement the Prospectus in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Principal Entities shall give immediate notice, confirmed in writing, to the Agents to cease the solicitation of offers for the purchase of Notes in their capacity as agents and to cease sales of any Notes they may then own as principal, and the Principal Entities will promptly prepare and file with the Commission, subject to Section 5(a)(ii) hereof, such amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement and Prospectus comply with such requirements, and the Principal Entities will furnish to the Agents, without charge, such number of copies of such amendment or supplement as the Agents may reasonably request. In addition, the Principal Entities will comply with the 1933 Act, the 1933 Act Regulations, the 1934 Act and the 1934 Act Regulations so as to permit the completion of the distribution of each offering of Notes.

(iv) Reporting Requirements. The Guarantor and the Company, on behalf of the Trusts, during the period when the Prospectus is required to be delivered under the 1933 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods prescribed by the 1934 Act and the 1934 Act Regulations.

(v) Suspension of Certain Obligations. The Principal Entities shall not be required to comply with the provisions of Section 5(a)(iii) hereof during any period commencing from the time (A) the Agents shall have suspended solicitation of offers for the purchase of Notes in their capacity as agents pursuant to a request from the Company and the relevant Trust pursuant to Section 4(b) hereof and (B) no Agent shall then hold any Notes purchased from a Trust as principal with a view to distribution, as the case may be, and ending at the time (x) the Company and the relevant Trust shall determine that solicitation of offers for the purchase of Notes should be resumed or (y) an Agent shall subsequently purchase Notes from a Trust as principal.

(vi) Blue Sky Qualifications. The Principal Entities shall endeavor to qualify the Notes for offer and sale under the securities or blue sky laws of such jurisdictions as the Agents shall reasonably request and to maintain such qualifications for as long as such Agents shall reasonably request; provided, however, that the Principal Entities shall not

be obligated to file any general consent to service or to qualify as a foreign corporation or a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(vii) Authorization to Act on Behalf of the Principal Entities. Each of the Principal Entities will, from time to time, upon written request, deliver to the Agents a certificate as to the names and signatures of those persons authorized to act on behalf of the Principal Entities in relation to the Programs if such information has changed.

(viii) Delivery of the Registration Statement. The Principal Entities will furnish to each Agent and to counsel for the Agents, without charge, conformed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith or incorporated by reference therein and documents incorporated or deemed to be incorporated by reference therein) and conformed copies of all consents and certificates of experts. The Registration Statement and each amendment thereto furnished to the Agents will be identical to any electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ix) Delivery of the Prospectus. The Principal Entities will deliver to each Agent, without charge, as many copies of each preliminary prospectus as such Agent may reasonably request, and each of the Principal Entities hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Principal Entities will furnish to each Agent, without charge, such number of copies of the Prospectus (as amended or supplemented) as such Agent may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Agents will be identical to any electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(x) Preparation of Pricing Supplements. The Company will prepare, with respect to any Notes to be sold to or through one or more Agents pursuant to this Agreement, a Pricing Supplement with respect to such Notes in a form previously approved by the Agents. The Company will deliver such Pricing Supplement no later than 11:00 a.m., New York City time, on the second business day following the date of the Company's acceptance of the offer for the purchase of such Notes and will file such Pricing Supplement pursuant to Rule 424(b)(3) under the 1933 Act.

(xi) Listing. In order for the Notes to be deemed "covered securities" under Section 18 of the 1933 Act, the Company shall use reasonable efforts to obtain and maintain approval for the listing of at least one series of the Notes on the New York Stock Exchange, the American Stock Exchange or another national securities organization as provided in Section 18(a) of the 1933 Act.

(xii) Earning Statements. The Guarantor will timely file or furnish such reports pursuant to the 1934 Act and the 1934 Act Regulations as are necessary in order to make generally available to its securityholders as soon as practicable an earning statement for the



purposes of, and to provide the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(xiii) Restrictions on the Offer and Sale of Funding Agreement(s). Except in connection with the Retail Program or as otherwise agreed, the Company shall not issue or agree to issue, during the period commencing on the date of the agreement of one or more Agents with a Trust to purchase a series of Notes as principal or solicit offers for the purchase of a series of Notes as agent and continuing to and including the Settlement Date with respect to such series of Notes (if the applicable Agent is acting as principal) or the date of delivery of such series of Notes (if the applicable Agent is acting as agent), any Funding Agreement or similar agreement for the purpose of supporting the issuance by a special purpose entity of securities denominated in the same currency and substantially similar to such series of Notes to the same potential investors (other than the Funding Agreement issued or to be issued to such Trust in connection with such series of Notes), in each case without the prior written consent of the applicable Agent(s). Notwithstanding the foregoing, the Company shall be permitted to issue or agree to issue, during the aforementioned time period, Funding Agreement(s) or similar agreements to Principal Financial Global Funding, LLC.

(xiv) The Depository Trust Company. The Company shall endeavor to assist the Agents in arranging to cause the Notes to be eligible for settlement through the facilities of The Depository Trust Company.

(xv) Outstanding Aggregate Principal Amount of Notes. The Company will promptly, upon request by an Agent, notify such Agent of the aggregate principal amount of notes outstanding and issued pursuant to the Registration Statement in their currency of denomination and (if so requested) expressed in United States dollars. For the purpose of determining the aggregate principal amount of notes outstanding and issued pursuant to the Registration Statement, (A) the principal amount of notes issued pursuant to the Registration Statement, denominated in a currency other than United States dollars, shall be converted into United States dollars using the spot rate of exchange for the purchase of the relevant currency against payment of United States dollars being quoted by the Paying Agent or the Calculation Agent, as applicable, each as defined in the relevant Indenture, on the date on which such notes issued pursuant to the Registration Statement were initially offered, (B) any notes issued pursuant to the Registration Statement which provide for an amount less than the principal amount thereof to be due and payable upon redemption following an Event of Default as defined in the relevant Indenture in respect of such Notes shall have a principal amount equal to their issue amount and (C) the currency in which any notes issued pursuant to the Registration Statement are payable, if different from the currency of their denomination, shall be disregarded.

(b) Covenants of the Trust. Each Trust covenants and agrees, only as to itself, with each Agent as follows:

(i) Use of Proceeds. Such Trust will use the net proceeds received by it from the issuance and sale of the Notes in the manner specified in the Prospectus.

(ii) The Depository Trust Company. Such Trust shall endeavor to assist the Agents in arranging to cause its Notes to be eligible for settlement through the facilities of The Depository Trust Company.

(iii) Notice of Amendment to relevant Indenture or relevant Trust Agreement. Such Trust will give the Agents at least three business days' prior notice in writing of any proposed amendment to the relevant Indenture or the relevant Trust Agreement and, except in accordance with the applicable provisions of such Indenture or such Trust Agreement, not make or permit to become effective any amendment to such Indenture or such Trust Agreement that may adversely affect the interests of the Agents.

(iv) Notice of Meeting. Such Trust will furnish, or cause to be furnished, to the Agents, at the same time as it is dispatched, a copy of notice of any meeting of the holders of Notes which is called to consider any matter which is material in the context of such Trust.

(v) Blue Sky Qualifications. Such Trust shall endeavor to qualify its Notes for offer and sale under the securities or blue sky laws of such jurisdictions as the Agents shall reasonably request and to maintain such qualifications for as long as such Agents shall reasonably request; provided, however, that such Trust shall not be obligated to file any general consent to service or to qualify as a foreign corporation or a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(vi) Authorization to Act on Behalf of such Trust. Such Trust will, from time to time, upon written request, deliver to the Agents a certificate as to the names and signatures of those persons authorized to act on behalf of such Trust in relation to the Programs if such information has changed.

6. Conditions of Agents' Obligations. The obligations of one or more Agents to purchase Notes from a Trust as principal and to solicit offers for the purchase of Notes as an agent of such Trust, and the obligations of any purchasers of Notes sold through an Agent as an agent of such Trust, will be subject to the accuracy of the representations and warranties, as of the date on which such representations and warranties were made or deemed to be made pursuant to Section 3 hereof, on the part of such Trust and the Principal Entities herein contained or contained in any certificate of an officer of such Trust or the Principal Entities, respectively, delivered pursuant to the provisions hereof, to the performance and observance by such Trust and the Principal Entities of their respective covenants and other obligations hereunder, and to the following additional conditions precedent:

(a) Effectiveness of Registration Statement. The Registration Statement (including any Rule 462(b) Registration Statement) has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act and no proceedings for that purpose shall have been instituted or shall be pending or threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Agents.

(b) Legal Opinions and Negative Assurance Letter. On the date of this Agreement, the Agents shall have received the following legal opinions and negative assurance letter, dated as of the date of this Agreement and in form and substance satisfactory to the Agents:

(i) Opinion of Internal Counsel for the Company. The opinion of internal counsel for the Company to the effect set forth in Exhibit A hereto.

(ii) Negative Assurance Letter of Principal Entities Counsel. The negative assurance letter of Sidley Austin Brown & Wood LLP or other legal counsel selected by the Principal Entities and reasonably satisfactory to the Agents ("Principal Entities Counsel") to the effect set forth in Exhibit B hereto.

(iii) Opinion of Principal Entities Counsel Concerning Certain Iowa Insolvency Matters. The opinion of Principal Entities Counsel to the effect set forth in Exhibit C hereto.

(iv) Opinion of Principal Entities Counsel Concerning Certain Federal Securities Matters. The opinion of Principal Entities Counsel to the effect set forth in Exhibit D hereto.

(v) Opinion of Principal Entities Counsel Concerning Certain New York Law Matters. The opinion of Principal Entities Counsel to the effect set forth in Exhibit E hereto.

(vi) Opinion of Principal Entities Counsel Concerning Certain Delaware Law Matters Relating to the Guarantor. The opinion of Principal Entities Counsel to the effect set forth in Exhibit F hereto.

(vii) Opinion of Principal Entities Counsel Concerning Certain Tax Matters. The opinion of Principal Entities Counsel to the effect set forth in Exhibit G hereto.

(viii) Memorandum of Principal Entities Counsel Concerning Certain Insurance Matters. The memorandum of Principal Entities Counsel to the effect set forth in Exhibit H hereto.

(ix) Opinion of Principal Entities Counsel Concerning Certain Insurance Matters. The opinion of Principal Entities Counsel to the effect set forth in Exhibit I hereto.

(x) Opinion of Agents Counsel. The opinion of Pillsbury Winthrop LLP or other legal counsel selected by the Retail Agent and reasonably satisfactory to the Principal Entities ("Agents Counsel") to the effect set forth in Exhibit J hereto.

(xi) Opinion of Counsel for the Trustee. The opinion of Dorsey & Whitney LLP, counsel for the Trustee, to the effect set forth in Exhibit K hereto.

(xii) Opinion of Counsel for the Indenture Trustee. The opinion of Emmet, Marvin & Martin, LLP, counsel for the Indenture Trustee, to the effect set forth in Exhibit L hereto.

(xiii) Opinion of Counsel for the Trust Beneficial Owner. The opinion of Schuyler, Roche & Zwirner, a Professional Corporation, counsel for the Trust Beneficial Owner, to the effect set forth in Exhibit M hereto.

(c) Principal Entities Officers' Certificates. On the date of this Agreement, there shall not have been, since the respective dates as of which information is given in the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Guarantor and its subsidiaries (or, in the case of the Company, the Company and its subsidiaries) considered as one enterprise, whether or not arising in the ordinary course of business, and the Agents shall have received a certificate of either the principal financial officer or a senior vice president of each of the Principal Entities, each dated as of the date of this Agreement, to the effect that (A) there has been no such material adverse change, (B) the representations and warranties of the Company or the Guarantor, as the case may be, herein contained are true and correct with the same force and effect as though expressly made at and as of the date of such certificate, (C) the Company or the Guarantor, as the case may be, has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the date of such certificate and (D) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or, to the best of each such officer's knowledge, are threatened by the Commission.

(d) Comfort Letter of the Accountants. On or about the date of this Agreement, the Agents shall have received a letter from Ernst & Young LLP or its successor (the "Accountants"), dated on or about the date of this Agreement and in form and substance satisfactory to the Agents, to the effect set forth in Exhibit N hereto.

(e) Additional Documents. On the date of this Agreement, counsel to the Agents shall have been furnished with such documents and opinions as such counsel may require for the purpose of enabling such counsel to pass upon the issuance and sale of Notes as herein contemplated and related proceedings, or in order to evidence the accuracy of any of the representations and warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the relevant Trust and the Principal Entities in connection with the issuance and sale of Notes as herein contemplated shall be satisfactory in form and substance to the Agents and to counsel to the Agents.

If any condition specified in this Section 6 shall not have been fulfilled when and as required to be fulfilled, this Agreement may be terminated by the applicable Agent or Agents by notice to the relevant Trust and the Principal Entities at any time and any such termination shall be without liability of any party to any other party except as provided in Section 11 hereof and except that Section 9, Section 10, Section 12, Section 15 and Section 16 hereof shall survive any such termination and remain in full force and effect.

7. Delivery of and Payment for Notes Sold through an Agent as Agent. Delivery of Notes sold through an Agent as an agent of the relevant Trust shall be made by such Trust to such Agent for the account of any purchaser only against payment therefor in immediately available funds. In the event that a purchaser shall fail either to accept delivery of or to make payment for a Note on the date fixed for settlement, such Agent shall promptly notify the Company and such Trust and deliver such Note to such Trust and, if such Agent has theretofore paid such Trust for such Note, such Trust will promptly return such funds to such Agent. If such failure has occurred for any reason other than default by such Agent in the performance of its obligations hereunder, the Company and such Trust will reimburse such Agent on an equitable basis for its loss of the use of the funds for the period such funds were credited to such Trust's account.

8. Additional Covenants of the Principal Entities and the Trusts. Each of the Principal Entities and each Trust further covenants and agrees with each Agent as follows:

(a) Subsequent Delivery of Principal Entities Officers' Certificate. In the event that:

(i) the Registration Statement or the Prospectus has been amended or supplemented (other than (A) by an amendment or supplement providing solely for the determination of the variable terms of the Notes or (B) in connection with the filing of any report under Section 13 or Section 15(d) of the 1934 Act) (each, a "Registration Statement Amendment");

(ii) the Guarantor has filed with the Commission, pursuant to the 1934 Act, a Quarterly Report on Form 10-Q or an Annual Report on Form 10-K, as the case may be (each, a "Guarantor Periodic Report");

(iii) the Guarantor has filed with the Commission a Current Report on Form 8-K under Item 1, 2, 3 and/or 4 thereof and the applicable Agent(s) makes a reasonable request of the Principal Entities (each, an "Agent 8-K Request"); or

(iv) the Principal Entities, the relevant Trust and the applicable Agent(s) so agree in connection with the proposed issuance of a series of Notes (each, an "Agent Request"),

then the Principal Entities shall furnish or cause to be furnished to the Agents promptly upon such Registration Statement Amendment, Guarantor Periodic Report, Agent 8-K Request or Agent Request, as applicable, a certificate dated the date of filing or effectiveness of the Registration Statement Amendment, as applicable, the date of the Guarantor Periodic Report, the date of the Current Report on Form 8-K relating to the Agent 8-K Request or the date agreed to in connection with such Agent Request, as the case may be, in a form reasonably satisfactory to the Agents, to the effect that the statements contained in the certificate referred to in Section 6(c) hereof which was last furnished to the Agents is true and correct at the date of filing or effectiveness of the Registration Statement Amendment, as applicable, the date of the Guarantor Periodic Report, the date of the Current Report on Form 8-K relating to the Agent 8-K Request or the date agreed to in connection with such Agent Request, as the case may be, as though made at and as of such date or, in lieu of such certificate, a certificate of substantially the same tenor as the certificate referred to in Section 6(c) hereof, modified as necessary to relate to the

Registration Statement Amendment, the Guarantor Periodic Report or the Current Report on Form 8-K relating to the Agent 8-K Request (or other report filed by the Guarantor under Section 13 or Section 15(d) of the 1934 Act in connection with an Agent Request) to the date of delivery of such certificate (it being understood that, in the case of an Agent Request in connection with an agreement by an Agent or Agents to purchase Notes from a Trust as principal, any such certificate shall also include a certification that there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects, of the Guarantor and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, since the date of such agreement by such Agent or Agents to purchase Notes from such Trust as principal); provided, however, that any delivery of certificates as required by this Section 8(a) due to the filing of a Registration Statement Amendment, the filing of a Guarantor Periodic Report or an Agent 8-K Request shall only be required to be delivered prior to the pricing date for the series of Notes to be issued immediately after such filing or request.

(b) Subsequent Delivery of Legal Opinions. In the event of an Agent Request, each of the Principal Entities shall furnish or cause to be furnished to the Agents promptly upon such Agent Request legal opinions of internal counsel for the Company, Principal Entities Counsel, counsel for the Trustee, counsel for the Indenture Trustee and counsel for the Trust Beneficial Owner, as applicable, dated the date agreed to in connection with such Agent Request, in form and substance reasonably satisfactory to the Agents, of substantially the same tenor as the legal opinions referred to in Section 6(b)(i), Section 6(b)(iii), Section 6(b)(iv), Section 6(b)(v), Section 6(b)(vi), Section 6(b)(vii), Section 6(b)(xi), Section 6(b)(xii) and Section 6(b)(xiii) hereof, as applicable, modified as necessary to relate to any report filed by the Guarantor under Section 13 or Section 15(d) of the 1934 Act, to the time of delivery of such legal opinions or, in lieu of such legal opinions, counsel last furnishing such legal opinions to the Agents shall furnish such Agents with a letter substantially to the effect that the Agents may rely on such last legal opinions to the same extent as though it was dated the date of such letter authorizing reliance (except that statements in such last legal opinions shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such letter authorizing reliance).

(c) Subsequent Delivery of Negative Assurance Letter of Principal Entities Counsel. In the event of:

- (i) a Registration Statement Amendment;
- (ii) a Guarantor Periodic Report;
- (iii) an Agent 8-K Request; or
- (iv) an Agent Request,

then each of the Principal Entities shall furnish or cause to be furnished to the Agents promptly upon such Registration Statement Amendment, Guarantor Periodic Report, Agent 8-K Request or Agent Request, as applicable, a negative assurance letter of Principal Entities Counsel dated the date of filing or effectiveness of the Registration Statement Amendment, as applicable, the

date of the Guarantor Periodic Report, the date of the Current Report on Form 8-K relating to the Agent 8-K Request or the date agreed to in connection with such Agent Request, as the case may be, in form and substance reasonably satisfactory to the Agents, of substantially the same tenor as the negative assurance letter referred to in Section 6(b)(ii) hereof, modified as necessary to relate to the Registration Statement Amendment, the Guarantor Periodic Report or the Current Report on Form 8-K relating to the Agent 8-K Request (or other report filed by the Guarantor under Section 13 or Section 15(d) of the 1934 Act in connection with an Agent Request) to the time of delivery of such negative assurance letter or, in lieu of such negative assurance letter, counsel last furnishing such negative assurance letter to the Agents shall furnish such Agents with a letter substantially to the effect that the Agents may rely on such last negative assurance letter to the same extent as though it was dated the date of such letter authorizing reliance (except that statements in such last negative assurance letter shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such letter authorizing reliance); provided, however, that any delivery of negative assurance letter as required by this Section 8(c) due to the filing of a Registration Statement Amendment, the filing of a Guarantor Periodic Report or an Agent 8-K Request shall only be required to be delivered prior to the pricing date for the series of Notes to be issued immediately after such filing or request.

(d) Subsequent Delivery of Negative Assurance Letter of Agents Counsel. As soon as practicable after the Guarantor has filed its Annual Report on Form 10-K for its most recent fiscal year with the Commission, commencing with the Guarantor's Annual Report on Form 10-K for the year ended December 31, 2004, but in no event later than the first pricing date for a series of Notes after such filing, or upon the reasonable request of any Agent, the Company shall furnish or cause to be furnished to the Agents a negative assurance letter of Agents Counsel, dated as soon as practicable after the date of filing of such Annual Report on Form 10-K with the Commission or such other date as is appropriate in connection with a request of an Agent, relating to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such negative assurance letter.

(e) Subsequent Annual Delivery of Legal Opinions. Unless otherwise agreed to among the Principal Entities and the Agents, the Principal Entities shall furnish or cause to be furnished to the Agents on or about each anniversary of the date hereof, each of the opinions set forth in Section 6(b)(i), Section 6(b)(iii), Section 6(b)(iv), Section 6(b)(v), Section 6(b)(vi), Section 6(b)(vii), Section 6(b)(xi), Section 6(b)(xii) and Section 6(b)(xiii) hereof, dated such date, in form and substance reasonably satisfactory to the Agents, of substantially the same tenor as such opinions referred to in Section 6(b)(i), Section 6(b)(iii), Section 6(b)(iv), Section 6(b)(v), Section 6(b)(vi), Section 6(b)(vii), Section 6(b)(xi), Section 6(b)(xii) and Section 6(b)(xiii) hereof, modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinions.

(f) Delivery of Legal Opinions or Reliance Letters Upon Issuance of Notes. Unless otherwise agreed to among the Principal Entities and the applicable Agent(s), the Principal Entities shall furnish or cause to be furnished to the applicable Agent(s) in connection with each issuance of a series of Notes by the applicable Trust (i) an opinion of internal counsel for the Company (or a reliance letter authorizing reliance by such Agent(s) on an opinion of like tenor) as to the validity

and enforceability of the Funding Agreement being issued in connection therewith and (ii) an opinion of Principal Entities Counsel (or a reliance letter authorizing reliance by such Agent(s) on an opinion of like tenor) as to the validity and enforceability of such Notes and the Guarantee being issued in connection therewith, in each case, dated the date of such issuance, and in form and substance reasonably satisfactory to the Agents.

(g) Subsequent Delivery of Comfort Letter. In the event of:

(i) a Registration Statement Amendment;

(ii) a Guarantor Periodic Report;

(iii) an Agent 8-K Request (provided that the Current Report on Form 8-K relating to such Agent 8-K Request contains financial statements or other financial information); or

(iv) an Agent Request,

then the Principal Entities shall cause the Accountants to furnish to the Agents promptly upon such Registration Statement Amendment, Guarantor Periodic Report, Agent 8-K Request or Agent Request, as applicable, a letter, dated the date of filing or effectiveness of the Registration Statement Amendment, as applicable, the date of the Guarantor Periodic Report, the date of the Current Report on Form 8-K relating to the Agent 8-K Request or the date agreed to in connection with such Agent Request, as the case may be, in form reasonably satisfactory to the Agents, of substantially the same tenor as the letter referred to in Section 6(d) hereof, modified as necessary to relate to the Registration Statement Amendment and the Prospectus as amended and supplemented to the date of such letter; provided, however, that if the Registration Statement or the Prospectus is amended or supplemented solely to include or incorporate by reference unaudited financial statements or other information as of and for a fiscal quarter, the Accountants may limit the scope of such letter to such unaudited financial statements or other information included or incorporated by reference in such amendment or supplement; provided, further, however, that any delivery of any letter as required by this Section 8(g) due to the filing of a Registration Statement Amendment, the filing of a Guarantor Periodic Report or an Agent 8-K Request shall only be required to be delivered prior to the pricing date for the series of Notes to be issued immediately after such filing or request.

9. Indemnification.

(a) Indemnification of the Agents. Each of the Principal Entities and each Trust (only as to itself in connection with the issuance of its series of Notes and not with respect to any other Trust), jointly and severally, agrees to indemnify and hold harmless each Agent and each person, if any, who controls such Agent within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), or the omission or



alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading, or arising out of an untrue statement or alleged untrue statement of a material fact included in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, provided that (subject to Section 9(d) hereof) any such settlement is effected with the written consent of the relevant Trust and the Principal Entities; and

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by such Agent), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under Section 9(a)(i) or Section 9(a)(ii) hereof;

provided, however, that this indemnity does not apply to any loss, liability, claim, damage or expense to the extent arising out of (A) an untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Principal Entities by the Agents expressly for use in the Registration Statement (or any amendment thereto) or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or (B) any use of the Prospectus by the applicable Agent to sell Notes or to solicit offers for the purchase of Notes (x) after such time as the Company shall have provided written notice pursuant to Section 5(a)(iii) hereof to the Agents to suspend the sale of Notes and the solicitation of offers for the purchase of Notes and (y) before such time as the Company shall have furnished the Agents with copies of such amendment or supplement to the Prospectus pursuant to Section 5(a)(iii) hereof.

(b) Indemnification of the Trusts and the Principal Entities. Each Agent severally agrees to indemnify and hold harmless (i) each Trust and each person, if any, who controls such Trust within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and (ii) the Principal Entities, their directors, each of their officers who signed the Registration Statement and each person, if any, who controls the Principal Entities within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, in each case, against any and all loss, liability, claim, damage and expense described in the indemnity contained in Section 9(a) hereof, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto) or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Principal Entities by the Agents expressly for use in the

Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto).

(c) Actions Against Parties; Notification. Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 9(a) hereof, counsel to the indemnified parties shall be selected by the applicable Agent(s) and, in the case of parties indemnified pursuant to Section 9(b) hereof, counsel to the indemnified parties shall be selected by the relevant Trust or the Principal Entities, as applicable. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 9 or Section 10 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Settlement without Consent if Failure to Reimburse. If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 9(a)(ii) hereof effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

10. Contribution. If the indemnification provided for in Section 9 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (a) in such proportion as is appropriate to reflect the relative benefits received by the relevant Trust or the Principal Entities, on the one hand, and the

applicable Agent(s), on the other hand, from the offering of the relevant series of Notes that were the subject of the claim for indemnification or (b) if the allocation provided by Section 10(a) hereof is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in Section 10(a) hereof but also the relative fault of the relevant Trust or the Principal Entities, on the one hand, and the applicable Agent(s), on the other hand, in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the relevant Trust or the Principal Entities, on the one hand, and the applicable Agent(s), on the other hand, in connection with the offering of the relevant series of Notes that were the subject of the claim for indemnification shall be deemed to be in the same respective proportions as the total net proceeds from the offering of such Notes (before deducting expenses) received by the relevant Trust and the total discount or commission received by each applicable Agent, as the case may be, bears to the aggregate initial offering price of such Notes.

The relative fault of the relevant Trust or the Principal Entities, on the one hand, and the applicable Agent(s), on the other hand, shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the relevant Trust or the Principal Entities, on the one hand, or by the applicable Agent(s), on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

Each Trust and the Principal Entities and the Agents agree that it would not be just and equitable if contribution pursuant to this Section 10 were determined by pro rata allocation (even if the applicable Agent(s) were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 10. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 10 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any applicable untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 10, (i) no Agent, acting as an agent under this Agreement, shall be required to contribute any amount in excess of the amount by which the total price at which any Notes underwritten by such Agent and distributed to the public were offered to the public exceeds the amount of any damages which such Agent has otherwise been required to pay by reason of any applicable untrue or alleged untrue statement or omission or alleged omission, (ii) no Agent, acting as a principal under this Agreement, shall be required to contribute any amount in excess of the amount by which the total price at which any Notes underwritten by such Agent and distributed to the public were offered to the public exceeds the amount of any damages which such Agent has otherwise been required to pay by reason of any applicable untrue or alleged untrue statement or omission or alleged omission and (iii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent

misrepresentation. In addition, in connection with an offering of Notes purchased from a Trust by two or more Agents as principal, the respective obligations of such Agents to contribute pursuant to this Section 10 are several, and not joint, in proportion to the aggregate principal amount of Notes that each such Agent has agreed to purchase from such Trust.

For purposes of this Section 10, each person, if any, who controls an Agent within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as such Agent, and each person, if any, who controls the relevant Trust within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and each director and officer of the Principal Entities and each person, if any, who controls the Principal Entities within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the relevant Trust or the Principal Entities, as the case may be.

11. Payment of Expenses. Each Trust and the Principal Entities will pay all expenses incident to the performance of the obligations of such Trust and the Principal Entities under this Agreement, including:

(a) The preparation, filing, printing and delivery of the Registration Statement as originally filed and all amendments thereto and any preliminary prospectus, the Prospectus and any amendments or supplements thereto;

(b) The preparation, printing and delivery of the Trust Program Documents and the Principal Program Documents;

(c) The preparation, issuance and delivery of such Trust's Notes, including any fees and expenses relating to the eligibility and issuance of such Trust's Notes in book-entry form and the cost of obtaining CUSIP or other identification numbers for such Trust's Notes;

(d) The fees and disbursements of the Principal Entities' and such Trust's accountants, counsel and other advisors or agents (including any calculation agent or exchange rate agent) and of the Trustee, the Indenture Trustee and their respective counsel;

(e) The reasonable fees and disbursements of counsel to the Agents incurred in connection with the establishment and maintenance of the Programs and, unless otherwise agreed, incurred from time to time in connection with the transactions contemplated hereby;

(f) The fees charged by nationally recognized statistical rating organizations for the rating of the Programs and such Trust's Notes;

(g) The fees and expenses incurred in connection with any listing of such Trust's Notes on a securities exchange;

(h) The filing fees incident to, and the reasonable fees and disbursements of counsel to the Agents in connection with, the review, if any, by the National Association of Securities Dealers, Inc. (the "NASD"); and

(i) Any advertising and other out-of-pocket expenses of the Agents incurred with the approval of such Trust and the Principal Entities.

12. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement or in certificates submitted pursuant hereto shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Agents or any controlling person of an Agent, or by or on behalf of the relevant Trust or the Principal Entities, and shall survive each delivery of and payment for the Notes.

13. Termination.

(a) Termination of this Agreement. This Agreement (excluding any agreement by one or more Agents to purchase Notes from a Trust as principal) may be terminated for any reason, at any time by (i) the relevant Trust, the Guarantor or the Company as to all the Agents or one or more but less than all the Agents or (ii) an Agent, as to itself, in each case, upon the giving of 10 days' prior written notice of such termination to the applicable parties hereto; provided, however, that notice of any termination by a Trust or either of the Principal Entities as to the Retail Agent, or the Retail Agent, as to itself, in each case, will be 30 days' prior written notice.

(b) Termination of Agreement to Purchase Notes as Principal. The applicable Agent(s) may terminate any agreement by such Agent(s) to purchase Notes from a Trust as principal, immediately upon notice to the Company and such Trust, at any time at or prior to the Settlement Date relating thereto, if (i) there has been, since the date of such agreement or since the respective dates as of which information is given in the Prospectus (exclusive of any supplement thereto), any material adverse change in (x) the condition, financial or otherwise, of such Trust or (y) the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Guarantor and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, or (ii) there has occurred any material adverse change in the financial markets in the United States or, if such Notes are denominated and/or payable in, or indexed to, one or more foreign or composite currencies, in the international financial markets, or any outbreak of hostilities or escalation thereof or other calamity or crisis or any similar change or similar development or event involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of such Agent(s), impracticable or inadvisable to market such Notes or enforce contracts for the sale of such Notes, or (iii) trading in any securities of the Guarantor, the Company or any Trust has been suspended or materially limited by the Commission or a national securities exchange, or if trading generally on the New York Stock Exchange or the American Stock Exchange or in the NASDAQ National Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by either of said exchanges or by such system or by order of the Commission, the NASD or any other governmental authority, or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States or, to the extent offers or sales of Notes are made to non-U.S. investors, with respect to Clearstream or Euroclear systems in Europe, or (iv) a banking moratorium has been declared by either Federal or New York authorities or by the relevant authorities in the country or countries of origin of any foreign or composite currency in which such Notes are

denominated and/or payable or (v) the rating assigned by any nationally recognized statistical rating organization to the Programs, the Notes, the Guarantor or the financial strength of the Company as of the date of such agreement shall have been lowered or withdrawn since that date or if any such rating organization shall have publicly announced that it has under surveillance or review its rating of the Programs, the Notes, the Guarantor or the financial strength of the Company.

(c) General. In the event of any such termination, no party will have any liability to any other party hereto, except that (i) the applicable Agents shall be entitled to any commissions earned in accordance with the third and fourth paragraphs of Section 4(b) hereof, (ii) if at the time of termination (a) any Agent shall own any Notes purchased by it from a Trust as principal or (b) an offer to purchase any of the Notes has been accepted by a Trust but the time of delivery to the purchaser or his or her agent of such Notes relating thereto has not occurred, the covenants set forth in Section 5 and Section 8 hereof shall remain in effect until such Notes are so resold or delivered, as the case may be, and (iii) the covenant set forth in Section 5(a)(xii) hereof, the indemnity and contribution agreements set forth in Section 9 and Section 10 hereof, and the provisions of Section 11, Section 12, Section 15 and Section 16 hereof shall remain in effect.

14. Notices. Unless otherwise provided herein, all notices required under the terms and provisions hereof shall be in writing, either delivered by hand, by mail or by telecopier or telegram, and any such notice shall be effective when received at the address specified below.

If to a Trust:

As set forth in the coordination agreement set forth in Section E of the Omnibus Instrument

If to the Company:

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392-0001  
Attention: Karen E. Shaff  
Telecopy No.: 515-248-8626

If to the Guarantor:

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392-0001  
Attention: Karen E. Shaff  
Telecopy No.: 515-248-8626

If to the Agents:

To each Agent at the address specified in Schedule A

or at such other address as such party may designate from time to time by notice duly given in accordance with the terms of this Section 14.

15. Parties. This Agreement shall inure to the benefit of and be binding upon the Agents and the Trusts and the Principal Entities and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the parties hereto and their respective successors and the controlling persons, officers and directors referred to in Section 9 and Section 10 hereof and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and their respective successors, and said controlling persons, officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Notes shall be deemed to be a successor by reason merely of such purchase.

16. Governing Law. THIS AGREEMENT AND ALL THE RIGHTS AND OBLIGATIONS OF THE PARTIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES. ANY SUIT, ACTION OR PROCEEDING BROUGHT BY A TRUST OR THE PRINCIPAL ENTITIES AGAINST ANY AGENT IN CONNECTION WITH OR ARISING UNDER THIS AGREEMENT MAY BE BROUGHT IN THE NON-EXCLUSIVE JURISDICTION OF THE BOROUGH OF MANHATTAN, THE CITY OF NEW YORK.

17. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

18. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts hereof shall constitute a single instrument.

19. Amendments. (a) This Agreement may be amended or supplemented if, but only if, such amendment or supplement is in writing and is signed by the Trusts, the Principal Entities and the Agents. The Company may from time to time nominate any institution as a new Agent hereunder either in respect of the Institutional Program generally or in relation to a particular series of Notes only; in which event, upon confirmation by such institution of an agent accession letter in the terms or substantially in the form of Exhibit O hereto, such institution shall become a party hereto, subject as provided below, with all the authority, rights, powers, duties and obligations of an Agent as if originally named as an Agent hereunder; provided, further, that, in the case of an institution which has become an Agent in relation to a particular series of Notes, following the issue of such series of Notes, the relevant new Agent shall have no further authority, rights, powers, duties or obligations except such as may have accrued or been incurred prior to, or in connection with, the issue of such series of Notes.

(b) The parties hereto acknowledge and agree that a copy of each amendment to this Agreement effected pursuant to this Section 19 shall be provided promptly by the Company to the following Rating Agencies at the following addresses:

Standard & Poor's Ratings Group,  
a division of The McGraw Hill Companies, Inc.  
55 Water Street  
New York, New York 10041  
Attention: Capital Markets  
Telecopy No.: 212-438-5215

Moody's Investors Service, Inc.  
99 Church Street  
New York, New York 10007  
Attention: Moody's Investors Service Life Insurance Group  
Telecopy No.: 212-553-4805

or such other addresses previously furnished in writing to the Company by any Rating Agency in the future; provided, however, that any failure by the Company to deliver copies of any amendment required to be delivered pursuant to this Section 19 shall not constitute a breach of, or an event of default under, this Agreement.

20. Stabilization. The Agent(s) may, to the extent permitted by applicable laws, over-allot and effect transactions in any over-the-counter market or otherwise in connection with the distribution of the Notes with a view to supporting the market price of Notes at levels higher than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. In such circumstances, as between the Company and a Trust, on one hand, and one or more Agents, on the other hand, such Agent(s) shall act as principal, and any loss resulting from stabilization shall be borne, and any profit arising therefrom and any sum received by such Agent(s) shall be beneficially retained by such Agent(s), as the case may be, for such Agents' own account.

21. Separate Nature of Each Trust. The Agents agree and acknowledge that, as a separate and distinct special purpose common law trust, the debts, liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to a particular Trust, including such Trust's obligations under this Agreement and the applicable Terms Agreement, will be enforceable only against such Trust and not against any other Trust.



If the foregoing is in accordance with the Agents' understanding of our agreement, please sign and return to the Principal Entities a counterpart hereof, whereupon this Agreement, along with all counterparts, will become a binding agreement among the Agents and the Principal Entities in accordance with its terms.

Very truly yours,

PRINCIPAL FINANCIAL GROUP, INC.

By: \_\_\_\_\_  
Name:  
Title:

PRINCIPAL LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

ACCEPTED AND AGREED,  
as of the date first above written:

MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By: \_\_\_\_\_  
Authorized Signatory

ABN AMRO INCORPORATED

By: \_\_\_\_\_  
Authorized Signatory

CITIGROUP GLOBAL MARKETS INC.

By: \_\_\_\_\_  
Authorized Signatory

CREDIT SUISSE FIRST BOSTON LLC

By: \_\_\_\_\_  
Authorized Signatory

LEHMAN BROTHERS INC.

By: \_\_\_\_\_  
Authorized Signatory

MORGAN STANLEY & CO. INCORPORATED

By: \_\_\_\_\_  
Authorized Signatory

UBS SECURITIES LLC

By: \_\_\_\_\_  
Authorized Signatory

By: \_\_\_\_\_  
Authorized Signatory

LIST OF SCHEDULES AND EXHIBITS

Schedule A	Names and Addresses of other Agents
Schedule B	Institutional Purchasers
Schedule C	Retail Purchasers
Exhibit A	Opinion of Internal Counsel for the Company
Exhibit B	Negative Assurance Letter of Principal Entities Counsel
Exhibit C	Opinion of Principal Entities Counsel Concerning Certain Iowa Insolvency Matters
Exhibit D	Opinion of Principal Entities Counsel Concerning Certain Federal Securities Matters
Exhibit E	Opinion of Principal Entities Counsel Concerning Certain New York Law Matters
Exhibit F	Opinion of Principal Entities Counsel Concerning Certain Delaware Law Matters Relating to the Guarantor
Exhibit G	Opinion of Principal Entities Counsel Concerning Certain Tax Matters
Exhibit H	Memorandum of Principal Entities Counsel Concerning Certain Insurance Matters
Exhibit I	Opinion of Principal Entities Counsel Concerning Certain Insurance Matters
Exhibit J	Opinion of Agents Counsel
Exhibit K	Opinion of Counsel for the Trustee
Exhibit L	Opinion of Counsel for the Indenture Trustee
Exhibit M	Opinion of Counsel for the Trust Beneficial Owner
Exhibit N	Comfort Letter
Exhibit O	Agent Accession Letter

SCHEDULE A

Merrill Lynch, Pierce, Fenner & Smith  
Incorporated

Four World Financial Center, North Tower  
New York, New York 10080  
Attention: Sabina Ceddia  
Telecopy No.: 212-449-2234

ABN AMRO Incorporated  
55 East 52nd Street, 6th Floor  
New York, New York 10055  
Attention: Syndicate  
Telecopy No.: 212-409-5256

Citigroup Global Markets Inc.  
388 Greenwich Street  
New York, New York 10013  
Attention: Medium-Term Note Department  
Telecopy No.: 212-816-0949

Credit Suisse First Boston LLC  
11 Madison Avenue  
New York, New York 10010  
Attention: Short and Medium Term Finance  
Telecopy No.: 212-743-5825

Lehman Brothers Inc.  
745 Seventh Avenue  
New York, New York 10019  
Attention: Fixed Income Syndicate/Medium Term Note Desk  
Telecopy No.: 212-526-0943

Morgan Stanley & Co. Incorporated  
1585 Broadway  
New York, New York 10036  
Attention: Legal Department  
Telecopy No.: 212-761-0783

UBS Securities LLC  
677 Washington Boulevard  
Stamford, Connecticut 06901  
Attention: Fixed Income Syndicate  
Telecopy No.: 203-719-0495

SCHEDULE B

INSTITUTIONAL PURCHASERS

As compensation for the services of the Agents hereunder, the relevant Trust shall pay the applicable Agent, on a discount basis, a commission for the sale of each Note to institutional purchasers equal to the principal amount of such Note multiplied by the appropriate percentage set forth below:

MATURITY RANGES	PERCENT OF PRINCIPAL AMOUNT
From 9 months to less than 2 years	.150%
From 2 years to less than 3 years	.200
From 3 years to less than 4 years	.250
From 4 years to less than 5 years	.300
From 5 years to less than 7 years	.350
From 7 years to less than 10 years	.400
From 10 years to less than 12 years	.450
From 12 years to less than 15 years	.475
From 15 years to less than 20 years	.500
From 20 years to 30 years	.875

SCHEDULE C

RETAIL PURCHASERS

As compensation for the services of the Retail Agent hereunder, the relevant Trust shall pay the Retail Agent, on a discount basis, a commission for the sale of each Note to retail purchasers equal to the principal amount of such Note multiplied by the appropriate percentage set forth below:

Maturity Ranges	Percent of Principal Amount
From 9 months to less than 1.5 years	.125%
From 1.5 years to less than 2 years	.200
From 2 years to less than 3 years	.400
From 3 years to less than 4 years	.625
From 4 years to less than 5 years	.750
From 5 years to less than 6 years	1.000
From 6 years to less than 7 years	1.100
From 7 years to less than 8 years	1.200
From 8 years to less than 9 years	1.300
From 9 years to less than 10 years	1.400
From 10 years to less than 11 years	1.500
From 11 years to less than 12 years	1.600
From 12 years to less than 15 years	1.750
From 15 years to less than 20 years	2.000
From 20 years to 30 years	To be negotiated at time of sale

EXHIBIT A

[ATTACH FORM OF OPINION OF INTERNAL COUNSEL FOR THE COMPANY]

A-1

EXHIBIT B

[ATTACH FORM OF NEGATIVE ASSURANCE LETTER OF PRINCIPAL ENTITIES COUNSEL]

B-1



EXHIBIT C

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN IOWA  
INSOLVENCY MATTERS]

C-1

EXHIBIT D

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN FEDERAL  
SECURITIES MATTERS]

D-1

EXHIBIT E

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN NEW YORK LAW MATTERS]

E-1

EXHIBIT F

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN  
DELAWARE LAW MATTERS RELATING TO THE GUARANTOR]

EXHIBIT G

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN TAX MATTERS]

G-1

EXHIBIT H

[ATTACH FORM OF MEMORANDUM OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN  
INSURANCE MATTERS]

H-1

EXHIBIT I

[ATTACH FORM OF OPINION OF PRINCIPAL ENTITIES COUNSEL CONCERNING CERTAIN  
INSURANCE MATTERS]

I-1

EXHIBIT J

[ATTACH FORM OF OPINION OF AGENTS COUNSEL]

J-1



EXHIBIT K

[ATTACH FORM OF OPINION OF COUNSEL FOR THE TRUSTEE]

K-1

EXHIBIT L

[ATTACH FORM OF OPINION OF COUNSEL FOR THE INDENTURE TRUSTEE]

L-1

EXHIBIT M

[ATTACH FORM OF OPINION OF COUNSEL FOR THE TRUST BENEFICIAL OWNER]

M-1

EXHIBIT N

FORM OF COMFORT LETTER

We are independent public accountants with respect to the Guarantor and its subsidiaries within the meaning of the 1933 Act and the 1933 Act Regulations and:

- (i) in our opinion, the audited consolidated financial statements and the related financial statement schedules included or incorporated by reference in the Registration Statement and the Prospectus comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations;
- (ii) on the basis of procedures (but not an examination in accordance with generally accepted auditing standards) consisting of a reading of the unaudited interim consolidated financial statements of the Guarantor [for the three-month periods ended March 31, 200[\_] and March 31, 200[\_], the three- and six-month periods ended June 30, 200[\_] and June 30, 200[\_] and the three- and nine-month periods ended September 30, 200[\_] and September 30, 200[\_]], included or incorporated by reference in the Registration Statement and the Prospectus (collectively, the "10-Q Financials")[, a reading of the unaudited interim consolidated financial statements of the Guarantor for the [\_\_\_\_\_] -month periods ended [\_\_\_\_\_] , 200[\_] and [\_\_\_\_\_] , 200[\_], included or incorporated by reference in the Registration Statement and the Prospectus (the "[\_\_\_\_\_] -month financials")](1)[, a reading of the latest available unaudited interim consolidated financial statements of the Guarantor],(2) a reading of the minutes of all meetings of the stockholders and directors of the Guarantor and its subsidiaries and committees thereof since [day after end of last audited period], inquiries of certain officials of the Guarantor and its subsidiaries responsible for financial and accounting matters, a review of interim financial information in accordance with standards established by the American Institute of Certified Public Accountants in Statement on Auditing Standards No. 71, Interim Financial Information ("SAS 71"), with respect to the [description of relevant periods] and such other inquiries and procedures as may be specified in such letter, nothing came to our attention that caused us to believe that:

(A) the 10-Q Financials included or incorporated by reference in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1934 Act and the 1934 Act Regulations applicable to unaudited financial statements included in Form 10-Q or any material modifications should be made to the 10-Q Financials included or incorporated by reference in the Registration Statement and the Prospectus for them to be in conformity with generally accepted accounting principles;

[(B) the [\_\_\_\_\_] -month financials included or incorporated by reference in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the 1933 Act Regulations applicable to unaudited interim financial statements

-----  
(1) Include if non-10-Q Financials are included or incorporated by reference in the Registration Statement and the Prospectus.

(2) Include if the latest available unaudited financial statements are more recent than the unaudited financial statements included or incorporated by reference in the Registration Statement and the Prospectus.

included in registration statements or any material modifications should be made to the [\_\_\_\_\_] -month financials included in the Registration Statement and the Prospectus for them to be in conformity with generally accepted accounting principles;](1)

(C) at [\_\_\_\_\_] , 200[\_] and at a specified date not more than five days prior to the date hereof, there was any change in the capital stock of the Guarantor, any increase in the long-term debt of the Guarantor or any decrease in the stockholders' equity of the Guarantor, in each case as compared with amounts shown in the latest balance sheet included or incorporated by reference in the Registration Statement and the Prospectus, except in each case for any changes, decreases or increases that the Registration Statement and the Prospectus disclose have occurred or may occur; or

(D) for the period from [\_\_\_\_\_] , 200[\_] to [\_\_\_\_\_] , 200[\_] and for the period from [\_\_\_\_\_] , 200[\_] to a specified date not more than five days prior to the date hereof, there was any decrease in consolidated revenues, income from continuing operations or net income, in each case as compared with the comparable period in the preceding year, except in each case for any decreases that the Registration Statement and the Prospectus discloses have occurred or may occur;

(iii) based upon the procedures set forth in clause (ii) above and a reading of the [Selected Financial Data] included or incorporated by reference in the Registration Statement and the Prospectus [and a reading of the financial statements from which such data were derived],(2) nothing came to our attention that caused us to believe that the [Selected Financial Data] included or incorporated by reference in the Registration Statement and the Prospectus do not comply as to form in all material respects with the disclosure requirements of Item 301 of Regulation S-K of the 1933 Act, that the amounts included in the [Selected Financial Data] are not in agreement with the corresponding amounts in the audited consolidated financial statements for the respective periods or that the financial statements not included or incorporated by reference in the Registration Statement and the Prospectus from which certain of such data were derived are not in conformity with generally accepted accounting principles;

(iv) we have compared the information included or incorporated by reference in the Registration Statement and the Prospectus under selected captions with the disclosure requirements of Regulation S-K of the 1933 Act and on the basis of limited procedures specified herein, nothing came to our attention that caused us to believe that such information does not comply as to form in all material respects with the disclosure requirements of Items 302, 402 and 503(d), respectively, of Regulation S-K;

[(v) based upon the procedures set forth in clause (ii) above, a reading of the latest available unaudited financial statements of the Guarantor that have not been included or incorporated by reference in the Registration Statement and the Prospectus and a review

-----  
(1) Include if unaudited financial statements, not just selected unaudited data, are included or incorporated by reference in the Registration Statement and the Prospectus.

(2) Include only if there are selected financial data that have been derived from financial statements not included or incorporated by reference in the Registration Statement and the Prospectus.

of such financial statements in accordance with SAS 71, nothing came to our attention that caused us to believe that the unaudited amounts for [\_\_\_\_\_] for the [most recent period] do not agree with the amounts set forth in the unaudited consolidated financial statements for those periods or that such unaudited amounts were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated financial statements;](1)

[(vi) we are unable to and do not express any opinion on the [Pro Forma Combined Balance Sheet and Statement of Operations] (collectively, the "Pro Forma Statements") included or incorporated by reference in the Registration Statement and the Prospectus or on the pro forma adjustments applied to the historical amounts included in the Pro Forma Statements; however, for purposes of this letter we have:

- (A) read the Pro Forma Statements;
- (B) performed [an audit] [a review in accordance with SAS 71] of the financial statements to which the pro forma adjustments were applied;
- (C) made inquiries of certain officials of the Guarantor who have responsibility for financial and accounting matters about the basis for their determination of the pro forma adjustments and whether the Pro Forma Statements comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X; and
- (D) proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the Pro Forma Statements; and

on the basis of such procedures and such other inquiries and procedures as specified herein, nothing came to our attention that caused us to believe that the Pro Forma Statements included or incorporated by reference in the Registration Statement and the Prospectus do not comply as to form in all material respects with the applicable requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;] and

(vii) in addition to the procedures referred to in clause (ii) above, we have performed other procedures, not constituting an audit, with respect to certain amounts, percentages, numerical data and financial information included or incorporated by reference in the Registration Statement and the Prospectus, which are specified herein, and have compared certain of such items with, and have found such items to be in agreement with, the accounting and financial records of the Guarantor.

-----  
(1) This language should be included when the Registration Statement and the Prospectus include earnings or other data for a period after the date of the most recent financial statements included or incorporated by reference in the Registration Statement and the Prospectus. The blank should be filled in with a description of the financial statement item(s) included.

EXHIBIT 0

FORM OF AGENT ACCESSION LETTER (ON LETTERHEAD OF THE COMPANY)

[Name of new Agent]  
[Address]

Ladies and Gentlemen:

We refer to the Distribution Agreement, dated March 5, 2004, entered into in respect of the Secured Medium-Term Notes Program (such agreement, as modified or amended from time to time, the "Distribution Agreement") among ourselves, Principal Financial Group, Inc., [specify Trust(s)] and the Agents from time to time party thereto, and have the pleasure of inviting you to become an Agent [but only in respect of [specify series of Notes (the "Notes")]](1) subject to and in accordance with the terms of the Distribution Agreement, a copy of which has been supplied to you by us. In addition, we enclose letters from counsel to [\_\_\_\_\_] entitling you to rely on the original letters referred to in Section 6(b) to the Distribution Agreement, as such letters may have been amended or supplemented, together with copies of such original, amended or supplemented letters. Please return to us a copy of this letter signed by an authorized signatory whereupon you will become an Agent for the purposes of the Distribution Agreement, with all the authority, rights, powers, duties and obligations of an Agent under the Distribution Agreement [except that, following the issue of the Notes, you shall have no further authority, rights, powers, duties or obligations except such as may have accrued or been incurred prior to, or in connection with, the issue of the Notes].(2)

This letter is governed by, and shall be construed in accordance with, the laws of the State of New York. The provisions of Section 18 of the Distribution Agreement shall apply to this letter as if set out herein in full.

Yours faithfully,

PRINCIPAL LIFE INSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

- 
- (1) Insert where the new Agent is being appointed only in relation to a particular series.
  - (2) Insert where the new Agent is being appointed only in relation to a particular series.

CONFIRMATION

We hereby accept the appointment as an Agent and accept all of the duties and obligations under, and the terms and conditions of, the Distribution Agreement upon the terms of this letter and affirm all representations, warranties and covenants contained therein as of the applicable date [but only in respect of [specify series of Notes]].(1)

We confirm that we are in receipt of all the documents which we have requested and have found them to be satisfactory.

For the purposes of the Distribution Agreement, our communications details are as set out below.

[NEW AGENT]

By: \_\_\_\_\_

Name:

Title:

Date: [\_\_\_\_\_]

Address: [\_\_\_\_\_]

Facsimile: [\_\_\_\_\_]

Attention: [\_\_\_\_\_]

Copies to:

The Indenture Trustee and the existing Paying Agent

[All existing Agents who have been appointed in respect of the Programs generally](2)

- - - - -

- (1) Insert where the new Agent is being appointed only in relation to a particular series.
- (2) Insert where the incoming Agent is being appointed in respect of the Program generally.



STANDARD INDENTURE TERMS  
WITH RESPECT TO  
PRINCIPAL LIFE INCOME FUNDINGS TRUSTS  
SENIOR SECURED MEDIUM-TERM NOTES AND  
PRINCIPAL(R) LIFE CORENOTES(R)

DATED AS OF March 5, 2004

"CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license.

TABLE OF CONTENTS

ARTICLE 1

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01.	Definitions.....	1
SECTION 1.02.	Compliance Certificates and Opinions.....	11
SECTION 1.03.	Form of Documents Delivered to Indenture Trustee.....	11
SECTION 1.04.	Acts of Holders.....	13
SECTION 1.05.	Notices.....	14
SECTION 1.06.	Notice to Holders; Waiver.....	16
SECTION 1.07.	Severability.....	16
SECTION 1.08.	Successors and Assigns.....	16
SECTION 1.09.	Benefits of Indenture.....	17
SECTION 1.10.	Language of Notices.....	17
SECTION 1.11.	Governing Law.....	17
SECTION 1.12.	Waiver of Jury Trial.....	17
SECTION 1.13.	Counterparts.....	18
SECTION 1.14.	Third Party Beneficiaries.....	18
SECTION 1.15.	Conflict with Trust Indenture Act.....	18

ARTICLE 2

THE NOTES

SECTION 2.01.	Forms Generally.....	18
SECTION 2.02.	No Limitation on Aggregate Principal Amount of Notes.....	21
SECTION 2.03.	Listing.....	21
SECTION 2.04.	Redemption and Repayment.....	21
SECTION 2.05.	Execution, Authentication and Delivery Generally.....	23
SECTION 2.06.	Registration.....	26
SECTION 2.07.	Transfer.....	26
SECTION 2.08.	Mutilated, Destroyed, Lost and Stolen Notes.....	27
SECTION 2.09.	Payment of Interest; Rights To Interest Preserved.....	27
SECTION 2.10.	Cancellation.....	28
SECTION 2.11.	Persons Deemed Owners.....	28
SECTION 2.12.	Tax Treatment; Tax Returns and Reports.....	29
SECTION 2.13.	No Association.....	29
SECTION 2.14.	Administrative Procedures.....	29

ARTICLE 3

COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 3.01.	Payment of Principal and any Premium, Interest and Additional Amounts.....	29
SECTION 3.02.	Collection Account.....	30
SECTION 3.03.	Agreements of the Paying Agent.....	30
SECTION 3.04.	Maintenance of Office or Agency.....	32
SECTION 3.05.	Duties of the Agents.....	33
SECTION 3.06.	Duties of the Transfer Agent.....	34
SECTION 3.07.	Duties of the Registrar.....	34

SECTION 3.08.	Unclaimed Monies.....	35
SECTION 3.09.	Protection of Collateral.....	36
SECTION 3.10.	Opinions as to Collateral; Annual Statement as to Compliance..	37
SECTION 3.11.	Performance of Obligations.....	39
SECTION 3.12.	Existence.....	39
SECTION 3.13.	Reports; Financial Information; Notices of Defaults.....	40
SECTION 3.14.	Payment of Taxes and Other Claims.....	41
SECTION 3.15.	Negative Covenants.....	41
SECTION 3.16.	Non-Petition.....	43
SECTION 3.17.	Title to the Collateral.....	44
SECTION 3.18.	Withholding and Payment of Additional Amounts.....	44
SECTION 3.19.	Additional Representations and Warranties.....	46
SECTION 3.20.	Ancillary Documents.....	47

ARTICLE 4

GRANTING OF SECURITY INTEREST AND ASSIGNMENT FOR COLLATERAL PURPOSES

SECTION 4.01.	Creation.....	47
SECTION 4.02.	Scope.....	48
SECTION 4.03.	Termination of Security Interest.....	49

ARTICLE 5

SATISFACTION AND DISCHARGE; SUBROGATION

SECTION 5.01.	Satisfaction and Discharge of Indenture.....	50
SECTION 5.02.	Application of Trust Money.....	50

ARTICLE 6

DEFAULTS AND REMEDIES

SECTION 6.01.	Events of Default.....	51
SECTION 6.02.	Acceleration of Maturity Date; Rescission and Annulment.....	53
SECTION 6.03.	Collection of Indebtedness and Suits for Enforcement.....	54
SECTION 6.04.	Indenture Trustee May File Proofs of Claim.....	54
SECTION 6.05.	Indenture Trustee May Enforce Claims Without Possession of Notes.....	55
SECTION 6.06.	Application of Money Collected.....	55
SECTION 6.07.	Limitation on Suits.....	56
SECTION 6.08.	Unconditional Rights of Holders to Receive Payments.....	57
SECTION 6.09.	Restoration of Rights and Remedies.....	57
SECTION 6.10.	Rights and Remedies Cumulative.....	57
SECTION 6.11.	Delay or Omission Not Waiver.....	57
SECTION 6.12.	Control by Holders.....	57
SECTION 6.13.	Waiver of Past Defaults.....	58
SECTION 6.14.	Undertaking for Costs.....	58
SECTION 6.15.	Waiver of Stay or Extension Laws.....	58

ARTICLE 7

THE INDENTURE TRUSTEE AND OTHER AGENTS

SECTION 7.01.	Duties of Indenture Trustee.....	59
---------------	----------------------------------	----

SECTION 7.02.	No Liability to Invest.....	60
SECTION 7.03.	Performance Upon Default.....	61
SECTION 7.04.	No Assumption by Paying Agent, Transfer Agent, Calculation Agent or Registrar.....	61
SECTION 7.05.	Notice of Default.....	61
SECTION 7.06.	Rights of Indenture Trustee.....	61
SECTION 7.07.	Not Responsible for Recitals or Issuance of Notes.....	63
SECTION 7.08.	Indenture Trustee May Hold Notes.....	63
SECTION 7.09.	Money Held in Trust.....	63
SECTION 7.10.	Compensation and Reimbursement.....	63
SECTION 7.11.	Eligibility.....	63
SECTION 7.12.	Resignation and Removal; Appointment of Successor.....	64
SECTION 7.13.	Acceptance of Appointment by Successor.....	65
SECTION 7.14.	Merger, Conversion, Consolidation or Succession to Business of Indenture Trustee.....	66
SECTION 7.15.	Co-trustees.....	66
SECTION 7.16.	Appointment and Duties of the Calculation Agent.....	67
SECTION 7.17.	Changes in Agents.....	68
SECTION 7.18.	Limitation of Trustee Liability.....	70

ARTICLE 8

SUPPLEMENTAL INDENTURES

SECTION 8.01.	Supplemental Indentures Without Consent of Holders.....	71
SECTION 8.02.	Supplemental Indenture With Consent of Holders.....	71
SECTION 8.03.	Execution of Supplemental Indentures.....	73
SECTION 8.04.	Effect of Supplemental Indenture.....	73
SECTION 8.05.	Reference in Notes to Supplemental Indentures.....	73
SECTION 8.06.	Conformity with Trust Indenture Act.....	73

ARTICLE 9

NON-RECOURSE PROVISIONS

SECTION 9.01.	Nonrecourse Enforcement.....	74
---------------	------------------------------	----

ARTICLE 10

MEETINGS OF HOLDERS OF NOTES

SECTION 10.01.	Purposes for Which Meetings May be Called.....	74
SECTION 10.02.	Call, Notice and Place of Meetings.....	74
SECTION 10.03.	Persons Entitled to Vote at Meetings.....	75
SECTION 10.04.	Quorum; Action.....	75
SECTION 10.05.	Determination of Voting Rights; Conduct and Adjournment of Meetings.....	76
SECTION 10.06.	Counting Votes and Recording Action of Meetings.....	77

ARTICLE 11

NOTES IN FOREIGN CURRENCIES

SECTION 11.01.	Notes in Foreign Currencies.....	77
----------------	----------------------------------	----

Exhibit A-1	Form of Retail Global Note
Exhibit A-2	Form of Institutional Global Note
Exhibit A-3	Form of Institutional Definitive Note

Reconciliation and tie between  
Trust Indenture Act of 1939 (the "Trust Indenture Act")  
and Indenture

Trust Indenture Act Section	Indenture Section
ss. 310(a)	7.11
(b)	7.11
ss. 311(a)	7.08
ss. 312(a)	3.13
(b)	3.13
(c)	3.13
ss. 313(a)	3.13
(b)	3.13
(c)	3.13
(d)	3.13
ss. 314(a)	3.10
(b)	3.10
(c)	1.02, 3.10
(d)	3.10
(e)	1.03, 3.10
ss. 315(c)	7.01
ss. 316(a)(1) (A)	6.02, 6.12
(a)(1)(B)	6.13
(b)	6.08
(c)	1.04
ss. 317(a)(1)	6.03
(a)(2)	6.04
(b)	3.03
ss. 318(a)	1.15
(c)	1.15

Note: This reconciliation and tie shall not, for any purpose, be deemed to be part of the Indenture.

Attention should also be directed to Section 318(c) of the Trust Indenture Act, which provides that certain provisions of Sections 310 to and including 317 are a part of and govern every qualified indenture, whether or not physically contained in the Indenture.

## STANDARD INDENTURE TERMS

This document constitutes the Standard Indenture Terms, dated as of March 5, 2004, which are incorporated by reference in the Indenture (specified in Section C of the Omnibus Instrument, as defined below), by and among the Trust named in the Omnibus Instrument and the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent for such Trust, in connection with the Program (all as defined in the Indenture).

These Standard Indenture Terms shall be of no force and effect unless and until incorporated by reference into, and then only to the extent not modified by, such Indenture.

The following terms and provisions shall govern the Notes subject to contrary terms and provisions expressly adopted in such Indenture, any supplemental indenture or the Notes, which contrary terms shall be controlling.

### ARTICLE 1 DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. Definitions. For all purposes of the Indenture, of all indentures supplemental to the Indenture and of all Notes issued under the Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in the Indenture have the meanings assigned to them in this Article 1, and include the plural as well as the singular;

(b) all accounting terms not otherwise defined in the Indenture have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise expressly provided in the Indenture, the term "generally accepted accounting principles" with respect to any computation required or permitted under the Indenture shall mean such accounting principles as are generally accepted at the date of such computation in the United States;

(c) the word "including" shall be construed to be followed by the words "without limitation";

(d) Article and Section headings are for the convenience of the reader and shall not be considered in interpreting the Indenture or the intent of the parties to the Indenture;

(e) the words "hereby," "herein," "hereof" and "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section, Exhibit or other subdivision; and

(f) references in the Indenture to Articles, Sections, Exhibits and Schedules shall, refer respectively to Articles, Sections, Exhibits and Schedules of these Standard Indenture Terms, unless otherwise expressly provided.

"ACT", with respect to any Holder, has the meaning set forth in Section 1.04.

"ADDITIONAL AMOUNTS" means additional amounts that are required by the Indenture or the Notes to be paid by the Trust to Holders pursuant to Section 3.18 or additional amounts that are required pursuant to the Funding Agreement, under circumstances specified therein, to be paid by Principal Life to the Funding Agreement Holder, to compensate for any withholding or deduction for or on the account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of such Notes or Funding Agreement, as applicable, by or on behalf of any governmental authority in the United States having the power to tax, so that the net amount received by the Holders or the Funding Agreement Holder, will equal the amount that would have been received under such Notes or Funding Agreement, as applicable, had no such deduction or withholding been required.

"AFFILIATE" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, that Person and, in the case of an individual, any spouse or other member of that individual's immediate family. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"AGENT" means any of the Registrar, Transfer Agent, Paying Agent or Calculation Agent.

"AUTHORIZED NEWSPAPER" means a newspaper, in an official language of the place of publication or in the English language, customarily published on each day that is a business day in the place of publication, whether or not published on days that are not business days in the place of publication, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and, in each case, on any day that is a business day in the place of publication.

"AUTHORIZED SIGNATORIES" mean Responsible Officers authorized to execute documents on behalf of the Trust.

"BANKING DAY" means a day (other than a Saturday or Sunday) on which commercial banks are generally open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Paying Agent or, as the case may be, the Registrar is located.

"BUSINESS DAY" means (i) for any Note, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York, (ii) for LIBOR Notes only, any day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London, England, (iii) for Notes that have a Specified Currency other than U.S. Dollars only, and other than Notes denominated in euros, any day that is not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the



Principal Financial Center of the country issuing the Specified Currency, and (iv) for Notes that have euros as the Specified Currency only a day on which the TARGET System is open.

"CALCULATION AGENT" means the institution appointed as calculation agent for the Notes and named as such in the relevant Pricing Supplement or its successors or assigns. For such purpose, the Paying Agent accepts its appointment as the initial Calculation Agent pursuant to Section 7.16.

"CLEARING SYSTEM" means DTC and any other clearing system specified in the relevant Pricing Supplement.

"CODE" means the Internal Revenue Code of 1986, as amended, including any successor or amendatory statutes and any applicable rules, regulations, notices or orders promulgated thereunder.

"COLLATERAL" means the right, title, benefits, remedies and interests of the Trust in, to and under (i) the Funding Agreement, (ii) all Proceeds of the Funding Agreement and the Guarantee and all amounts and instruments on deposit from time to time in the Collection Account, (iii) the Guarantee, (iv) all books and records pertaining to the Funding Agreement and the Guarantee, and (v) all rights of the Trust pertaining to the foregoing.

"COLLECTION ACCOUNT" means a non-interest bearing account with the Indenture Trustee in the name of the Trust or such other account with a depository institution that is rated at least AA- or Aa3 by a nationally recognized statistical rating organization as may be designated by the Trustee, which account shall be segregated from other accounts held by the Indenture Trustee or such other depository institution.

"COMMISSION" means the Securities and Exchange Commission or any successor body performing such duties of the Commission.

"CONTINGENT OBLIGATION" means, as applied to any Person, without duplication, any direct or indirect liability, contingent or otherwise, of that Person (i) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation of another if the primary purpose or intent thereof by the Person incurring the Contingent Obligation is to provide assurance to the obligee of such obligation of another that such obligation of another will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof, (ii) under any letter of credit issued for the account of or for which that Person is otherwise liable for reimbursement thereof, (iii) under agreements providing for the hedging or limitation of interest rate or currency risk, (iv) under any performance bond or other surety arrangement, (v) under any direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, or (vi) for the obligations of another through any agreement (contingent or otherwise).

"CORPORATE TRUST OFFICE" means the office of the Indenture Trustee at which the corporate trust business of the Indenture Trustee shall, at any particular time, be principally administered, which office at the date of the Indenture is located as indicated in Section 1.05.

"DEFAULT" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"DEFAULTED INTEREST" has the meaning set forth in Section 2.09.

"DEFINITIVE NOTE" means a Note issued in certificated and registered form.

"DEPOSITARY" means the Person designated as Depositary by the Trust pursuant to the Indenture, which Person, if required by any applicable law, regulation or exchange requirement, must be a clearing agency registered under the Securities Exchange Act and, if so provided with respect to any Note, any successor to such Person. Initially, the "Depositary" shall be DTC.

"DISTRIBUTION AGREEMENT" means that certain Distribution Agreement, dated March 5, 2004, by and among Principal Life, PFG and the agents named therein and acknowledged and agreed to by the Trust, relating to the issuance and sale of the Notes under the Program, as the same may be amended, modified or supplemented from time to time.

"DOLLARS", "\$", "U.S. \$" and "U.S. DOLLARS" mean such coin or currency of the United States as at the time shall be legal tender for the payment of public or private debts.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"EUROPEAN UNION DIRECTIVE" means any law, regulation, directive or any interpretation by the European Union or a member nation of the European Union which requires the withholding or deduction of any amounts payable under the Notes, the Indenture or the Funding Agreement.

"EVENT OF DEFAULT" has the meaning set forth in Section 6.01.

"EXPENSE AND INDEMNITY AGREEMENT" means, as applicable, (i) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Trustee, on behalf of itself and each trust organized under the Program, including the Trust, (ii) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Indenture Trustee, (iii) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Trust Beneficial Owner and (iv) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and Bankers Trust Company, N.A., as each may be amended, modified or supplemented from time to time.

"FUNDING AGREEMENT" means that certain funding agreement designated in the Indenture, entered into by and between Principal Life and the Trust, as it may be modified, restated, replaced, supplemented or otherwise amended from time to time in accordance with the terms thereof.

"FUNDING AGREEMENT HOLDER" means, with respect to the Notes, the "Agreement Holder" as specified in the Funding Agreement.

"GLOBAL NOTE" means a Note issued in book-entry and registered form.

"GUARANTEE" means that certain guarantee issued by PFG to the Trust designated in the Indenture, which fully and unconditionally guarantees Principal Life's payment obligations under the Funding Agreement, as it may be modified, restated, replaced, supplemented or otherwise amended from time to time in accordance with the terms thereof.

"HOLDER" means the Person in whose name a Note or Notes is registered in the Register.

"INDEBTEDNESS" means, as applied to any Person, (i) all indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingent or otherwise, or in respect of which such Person otherwise assures a creditor against loss (excluding trade accounts payable and accrued expenses arising in the ordinary course of business as determined in good faith by such Person), (ii) that portion of obligations with respect to capital leases which is properly classified as a liability on a balance sheet in conformity with generally accepted accounting principles, (iii) obligations evidenced by bonds, notes, debentures or similar instruments of such Person, and notes payable by such Person and drafts accepted by such Person representing extensions of credit whether or not representing obligations for borrowed money, (iv) the face amount of all drafts drawn thereunder, and (v) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person.

"INDENTURE" means that certain Indenture, contained in, and dated as of the date specified in, the Omnibus Instrument, by and among the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent and the Trust, as may be amended, modified or supplemented from time to time, which incorporates by reference these Standard Indenture Terms, and shall include the terms of the Notes established as contemplated hereunder and thereunder.

"INDENTURE TRUSTEE" means, unless otherwise specified in the Indenture, Citibank, N.A. and, subject to the provisions of Article 7, shall also include its successors and assigns as Indenture Trustee under the Indenture.

"INTEREST PAYMENT DATE" means each date on which interest is paid to the Holders of the Notes as specified in the Indenture.

"INVESTMENT COMPANY ACT" means the Investment Company Act of 1940, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"LIBOR CURRENCY" means the currency specified in the Pricing Supplement as to which LIBOR shall be calculated or, if no currency is specified in the Pricing Supplement, United States dollars.

"LIBOR NOTES" means Notes that bear interest based on LIBOR (as defined in the Notes).

"LICENSE AGREEMENT" means that certain License Agreement by and between the Trustee, on behalf of the Trust, and Principal Financial Services, Inc., contained in, and dated as of the date specified in, the Omnibus Instrument, as the same may be amended, modified or supplemented from time to time.

"LIEN" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including without limitation any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction).

"MATURITY DATE" means the date on which the principal of the Notes becomes due and payable as provided therein or in the Indenture, whether at the Stated Maturity Date thereof, by declaration of acceleration, notice of redemption of the Trust, notice of the Holder's option to elect repayment or otherwise.

"NONRECOURSE PARTIES" has the meaning set forth in Section 9.01.

"NOTE" means any senior secured note of the Trust designated in the Indenture and authenticated and delivered under the Indenture, which is in registered form and may be represented by a Global Note or a Definitive Note, and which shall be substantially in the forms attached as Exhibit A-1, Exhibit A-2 and Exhibit A-3 to the Indenture and "NOTES" means the senior secured notes of the Trust represented by such Note.

"NOTICE OF DEFAULT" has the meaning set forth in Section 6.01.

"OFFICE OR AGENCY" means an office or agency of the Trust, the Indenture Trustee, the Paying Agent or the Registrar, as the case may be, maintained or designated as the Place of Payment for the Notes pursuant to Section 3.04 or any other office or agency of the Trust, Indenture Trustee, Paying Agent or Registrar, as the case may be, maintained or designated for such Notes pursuant to Section 3.04.

"OMNIBUS INSTRUMENT" means the omnibus instrument pursuant to which certain Program Documents are executed.

"OPINION OF COUNSEL" means a written opinion addressed to the Indenture Trustee (among other addressees) by legal counsel, who may be internal legal counsel to Principal Life, who may, except as otherwise expressly provided in the Indenture, be counsel for the Trust or Principal Life or other counsel and who shall be reasonably satisfactory to the Indenture Trustee.

"ORIGINAL ISSUE DATE", with respect to the Notes, means the original issue date of the Notes, as specified in the Pricing Supplement.

"OUTSTANDING" means as of any date of determination, all of the Notes theretofore authenticated and delivered under the Indenture or in one or more indentures supplemental to the Indenture, except:

(i) Notes theretofore cancelled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation;

(ii) Notes or portions thereof for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of the Notes, provided that, if the Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Indenture Trustee has been made;

(iii) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course;

(iv) Notes alleged to have been destroyed, lost, stolen or mutilated and surrendered to the Indenture Trustee for which either replacement Notes have been issued or payment has been made as provided for in Section 2.08 unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course; and

(v) Notes represented by Global Notes to the extent that they shall have been duly exchanged for Definitive Notes pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course;

provided further, however, that in determining whether the Holders of the requisite percentage of the principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by the Trust or any Affiliate of the Trust shall be disregarded and deemed not to be Outstanding, except that in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that the Indenture Trustee knows to be so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee that the pledgee is entitled so to act with respect to such Notes and that the pledgee is not the Trust or any Affiliate of the Trust.

"PAYING AGENT" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as paying agent under the Indenture or its successors or assigns.

"PERSON" means any natural person, corporation, limited partnership, general partnership, joint stock company, joint venture, association, company, limited liability company, trust (including any beneficiary thereof), bank, trust company, land trust, business trust or other

organization, whether or not a legal entity, and governments and agencies and political subdivisions thereof.

"PFG" means Principal Financial Group, Inc., a Delaware corporation and the indirect parent of Principal Life, or any successor thereto.

"PLACE OF PAYMENT" means the place where the principal of, premium, if any, and interest on the Notes are payable which, unless otherwise specified in the Indenture, shall be the address specified in Section 1.05 for the Indenture Trustee.

"PRICING SUPPLEMENT" means the pricing supplement attached to the Omnibus Instrument as Exhibit D as prepared by the Trust in connection with the issuance and sale by the Trust of the Notes and agreed to by Principal Life, the Trust and the Relevant Agents appointed under the Distribution Agreement, as such Pricing Supplement may be amended, modified, supplemented or replaced from time to time.

"PRINCIPAL FINANCIAL CENTER" means, as applicable, the capital city of the country issuing the Specified Currency or the capital city of the country to which the LIBOR Currency relates; provided, however, that with respect to United States Dollars, Australian dollars, Canadian dollars, the euro, South African rand and Swiss francs, the "Principal Financial Center" shall be The City of New York, Sydney, Toronto, London (solely in the case of the LIBOR Currency), Johannesburg and Zurich, respectively.

"PRINCIPAL LIFE" means Principal Life Insurance Company, an Iowa insurance company, or any successor thereto.

"PROCEEDS" means all of the proceeds of, and all other profits, products, rents, principal payments, interest payments or other receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition or maturity of, or other realization upon, the Funding Agreement or the Guarantee, including without limitation all claims of the Trust against third parties for loss of, damage to or destruction of, or for proceeds payable under, the Funding Agreement or the Guarantee, in each case whether now existing or hereafter arising.

"PROGRAM" means, collectively, the Senior Secured Medium-Term Notes Program and the Principal(R) Life CoreNotes(R) Program, in each case, of the Principal Life Income Fundings Trusts.

"PROGRAM DOCUMENTS" means the Indenture, the Notes, the Trust Agreement, the Funding Agreement, the Guarantee, the Distribution Agreement, the License Agreement and each Expense and Indemnity Agreement and any other documents or instruments entered into by, with respect to, or on behalf of, the Trust.

"RATING AGENCY" means any rating agency that has rated the Program or the Notes.

"REDEMPTION PRICE" means the price at which the Notes are to be redeemed pursuant to Section 2.04, as set forth in the applicable Pricing Supplement or a supplemental indenture.

"REGISTER" has the meaning set forth in Section 2.06.

"REGISTRAR" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as registrar under the Indenture, or its successors or assigns.

"REGISTRATION STATEMENT" means (a) a registration statement on Form S-3 or other appropriate form, including the prospectus, prospectus supplements and the exhibits included therein and including any documents or filings incorporated by reference therein, any pre-effective or post-effective amendments thereto and any registration statements filed subsequent thereto under rules promulgated under the Securities Act, relating to the registration under the Securities Act of the Notes, the Funding Agreement and the Guarantee, (b) any preliminary prospectus or prospectus supplements thereto relating to the Notes whether or not required to be filed pursuant to the Securities Act and any documents or filings incorporated therein by reference, and (c) a registration statement and such other documents, forms or filings as may be required by the Securities Act or the Trust Indenture Act, or other securities laws in each case relating to the Notes.

"REGULAR RECORD DATE" for the interest payable on any Interest Payment Date means the date specified for that purpose in the Notes or the Indenture.

"RELEVANT AGENTS" means the agent or agents (in a firm commitment offering of Notes or in a best efforts offering of Notes) appointed pursuant to the Distribution Agreement.

"RESPONSIBLE OFFICER" means, with respect to the Indenture Trustee or the Trustee, any vice president, assistant vice president, any assistant secretary, any assistant treasurer, any trust officer or assistant trust officer, or any other officer of the Indenture Trustee or the Trustee, as the case may be, customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject, and also, with respect to the Trustee, having direct responsibility for the administration of the Trust, or with respect to the Indenture Trustee, having direct responsibility for the administration of the Indenture.

"SECURED OBLIGATIONS" means the obligations of the Trust secured under the Notes and the Indenture, including (i) all principal of, premium, if any, and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Trust, whether or not allowed or allowable as a claim in any such proceeding) on such Notes or pursuant to the Indenture, (ii) all other amounts payable by the Trust under the Indenture or under such Notes including all Additional Amounts (if applicable) and all costs and expenses (including without limitation attorneys' fees) incurred by the Indenture Trustee (to the extent not paid pursuant to the applicable Expense and Indemnity Agreement) and (iii) any renewals or extensions of the foregoing.

"SECURITIES ACT" means the Securities Act of 1933, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"SECURITIES EXCHANGE ACT" means the Securities Exchange Act of 1934, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"SPECIAL RECORD DATE" means a date fixed by the Indenture Trustee pursuant to Section 2.09 for the payment of any Defaulted Interest on any Note.

"SPECIFIED CURRENCY" means the currency in which the Notes are denominated (or, if such currency is no longer legal tender for the payment of public and private debts in the country issuing such currency or, in the case of the euro, in the member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union, such currency which is then such legal tender).

"STANDARD INDENTURE TERMS" means these Standard Indenture Terms, dated as of March 5, 2004.

"STATED MATURITY DATE" means the date specified in the Notes, as the fixed date on which the principal of such Notes is due and payable, which date will be a day between nine months and thirty years from the date of original issuance of the Notes and be on the last scheduled Interest Payment Date.

"STERLING" means such coin or currency of the United Kingdom as at the time shall be legal tender for the payment of public or private debts.

"TARGET SYSTEM" means the Trans-European Automated Real-Time Gross Settlement Express Transfer System.

"TRANSFER AGENT" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as transfer agent under the Indenture or its successors or assigns.

"TREASURY REGULATIONS" means the regulations promulgated by the United States Treasury Department pursuant to the Code.

"TRUST" means the Principal Life Income Fundings Trust named in the Omnibus Instrument, which shall be a trust, formed under the laws of the jurisdiction specified in the Trust Agreement, together with its permitted successors and assigns; provided, however, unless the context requires otherwise, all references in the Indenture to the "Trust" shall also include the Trustee, on behalf of the Trust.

"TRUST AGREEMENT" means that certain Trust Agreement, contained in, and dated as of the date specified in, the Omnibus Instrument, by and between the Trustee and the Trust Beneficial Owner, declaring and establishing the Trust, as may be amended, modified or supplemented from time to time.

"TRUST BENEFICIAL INTEREST" has the meaning set forth in the Trust Agreement.



"TRUST BENEFICIAL OWNER" means the beneficial owner of the Trust Beneficial Interest.

"TRUST CERTIFICATE" means a certificate signed by one or more Responsible Officers of the Trustee on behalf of the Trust and delivered to the Indenture Trustee.

"TRUST INDENTURE ACT" means the Trust Indenture Act of 1939, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"TRUST ORDER" or "TRUST REQUEST" means a written statement, request or order of the Trust signed in its name by one or more Responsible Officers of the Trustee and delivered to the Indenture Trustee.

"TRUSTEE" means, unless otherwise specified in the Trust Agreement, U.S. Bank Trust National Association, not in its individual capacity, but solely as the Trustee under the Trust Agreement, and shall also include its permitted successors and assigns under the Trust Agreement.

"UCC" means the Uniform Commercial Code, as from time to time in effect in the State of New York; provided that, with respect to the perfection, effect of perfection or non-perfection, or priority of any security interest in the Collateral, "UCC" shall mean the Uniform Commercial Code, as from time to time in effect in the applicable jurisdiction whose law governs such perfection, non-perfection or priority.

"UNITED STATES" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

SECTION 1.02. Compliance Certificates and Opinions. Upon any application or request by the Trust to the Indenture Trustee to take any action under any provision of the Indenture, the Trust shall furnish to the Indenture Trustee a Trust Certificate stating that all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of the Indenture, no additional certificate or opinion need be furnished.

SECTION 1.03. Form of Documents Delivered to Indenture Trustee.

(a) In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

(b) Any certificate or opinion of the Trust may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless the Trustee knows that the certificate or opinion or representations with respect to the matters upon

which its certificate or opinion is based are erroneous. Any such certificate or opinion or any Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, the Trustee stating that the information with respect to such factual matters is in the possession of the Trustee, unless such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous. Any Opinion of Counsel may be based on the written opinion of other counsel, in which event such Opinion of Counsel shall be accompanied by a copy of such other counsel's opinion and shall include a statement to the effect that such counsel believes that such counsel and the Indenture Trustee may reasonably rely upon the opinion of such other counsel. Any certificate or opinion of the Trust or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of Principal Life, PFG or the Trust, unless the Trustee knows that the certificate or opinion or representations with respect to the accounting matters upon which its certificate or opinion is based are erroneous.

(c) Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under the Indenture, they may, but need not, be consolidated and form one instrument.

(d) Wherever in the Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Trust shall deliver any document as a condition of the granting of such application, or as evidence of compliance with any term of the Indenture, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Trust to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to limit the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Section 7.01.

(e) Every certificate or opinion with respect to compliance with a condition or covenant provided for in the Indenture (including one furnished pursuant to specific requirements of the Indenture relating to a particular application or request) shall substantially include:

(i) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions in the Indenture relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of each such individual, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

#### SECTION 1.04. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by any Holder may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holder in person or by one or more agents duly appointed in writing. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by Holders may, alternatively, be embodied in and evidenced by the record of Holders of Notes voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Notes duly called and held in accordance with the provisions of Article 10, or a combination of such instruments and any such record. Except as otherwise expressly provided in the Indenture, such action shall become effective when such instrument or instruments or record or both are delivered to the Indenture Trustee. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are sometimes referred to in the Indenture as the "ACT" of the Holders signing such instrument or instruments or so voting at any meeting. Proof of execution of any such instrument or of writing appointing any such agent, or of the holding by any Person of a Note, shall be sufficient for any purpose of the Indenture and (subject to Section 7.01) conclusive in favor of the Indenture Trustee, and the Trust, if made in the manner provided in this Section 1.04. The record of any meeting of Holders of Notes shall be proved in the manner provided in Section 10.06. Without limiting the generality of this Section 1.04, unless otherwise provided in or pursuant to the Indenture, a Clearing System that is or whose nominee is a Holder of a Global Note may allow its account holders who have beneficial interests in such Global Note credited to accounts with such Clearing System to direct such Clearing System in taking such action through such Clearing System's standing instructions and customary practices. The Clearing System shall report only one result of its solicitation of proxies to the Indenture Trustee.

(b) Subject to Section 7.01, the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Whenever such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may be proved in any other manner that the Indenture Trustee deems sufficient.

(c) The ownership, principal amount and serial numbers of Notes held by any Person, and the date of the commencement and the date of the termination of holding the same, shall be proved by the Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in

lieu thereof in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Trust in reliance thereon, whether or not notation of such action is made upon such Note.

(e) Except as provided in subsection (f) below, if the Trust shall solicit from the Holders of Notes any Act referred to in Section 1.04(a), the Trust may, at its option, fix in advance a record date for the determination of Holders entitled to vote or consent in connection with any such Act, but the Trust shall have no obligation to do so. If such record date is fixed, such Act may be given after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Notes have authorized or agreed or consented to such Act, and for that purpose the Outstanding Notes shall be computed as of such record date; provided, that no such Act by Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of the Indenture not later than six months after the record date. Nothing in this subsection (e) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Notes on the date such action is taken. Promptly after any record date is set pursuant to this subsection (e), the Trust shall cause notice of such record date and the proposed action by Holders to be given to the Indenture Trustee in writing and to each Holder of the Notes in the manner set forth in Section 1.06.

(f) The Indenture Trustee may set any day as a record date for the purpose of determining the Holders entitled to join in the giving or making of (i) any notice delivered pursuant to Section 6.01(d), (ii) any declaration of acceleration referred to in Section 6.02, (iii) any request to institute proceedings referred to in Section 6.07(b) or (iv) any direction referred to in Section 6.12. If such a record date is fixed pursuant to this subsection (f), the relevant action may be taken or given after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Notes have authorized or agreed or consented to such action, and for that purpose the Outstanding Notes shall be computed as of such record date; provided, that no such action by Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of the Indenture not later than six months after the record date. Nothing in this subsection (f) shall be construed to prevent the Indenture Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this subsection (f) (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this subsection (f) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Notes on the date such action is taken. Promptly after any record date is set pursuant to this subsection (f), the Indenture Trustee shall cause notice of such record date and the proposed action by Holders to be given to the Trust in writing and to each Holder of the Notes in the manner set forth in Section 1.06.

SECTION 1.05. Notices. Any request, demand, authorization, direction, notice, consent, waiver or other action required or permitted by the Indenture to be made upon, given or furnished to, or filed with, the Indenture Trustee, the Registrar, the Transfer Agent, the Paying Agent, the Calculation Agent, the Trust and the Rating Agencies shall be sufficient for every purpose under the Indenture (unless otherwise expressly provided in the Indenture) if in writing and sent by fax, telex, or mailed, first-class mail or overnight courier, in each case postage

prepaid, at the address specified in this Section 1.05 or at any other address previously furnished in writing by one party to the other.

Such notices shall be addressed

if to the Indenture Trustee, to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Facsimile: (212) 657-3862  
Attention: Nancy Forte

if to the Registrar, Transfer Agent, Paying Agent and Calculation Agent, to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Facsimile: (212) 657-3862  
Attention: Nancy Forte

if to the Trust, to:

Principal Life Income Fundings Trust (followed by the number of the Trust designated in the Omnibus Instrument)  
c/o U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, NY 10005  
Telephone: (212) 361-2458  
Facsimile: (212) 509-3384  
Attention: Adam Berman

if to the Rating Agencies, to:

Standard & Poor's Rating Services  
55 Water Street  
33rd Floor  
New York, New York 10041  
Facsimile: (212)438-5215  
Attention: Capital Markets

Moody's Investors Service, Inc.  
Life Insurance Group  
99 Church Street  
New York, New York 10007  
Facsimile: (212) 553-4805  
Attention: [Principal Life Income Fundings Trusts]

SECTION 1.06. Notice to Holders; Waiver.

(a) Except as otherwise expressly provided in or pursuant to the Indenture, notices to Holders required under the Notes shall be sufficiently given upon the mailing by overnight courier or first-class mail (or equivalent), or (if posted to an overseas address) by airmail, postage prepaid, of such notices to each Holder of the Notes at their registered addresses as recorded in the Register.

(b) Where the Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. In any case, neither the failure to give such notice, nor any defect in any notice to any particular Holder shall affect the sufficiency of such notice with respect to other Holders, and any notice which is mailed in the manner provided in the Indenture shall be conclusively presumed to have been duly given.

(c) In the case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Indenture Trustee shall constitute a sufficient notification for every purpose under the Indenture.

SECTION 1.07. Severability. In case any provision in or obligation under the Indenture or the Notes shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby to the fullest extent permitted under applicable law.

SECTION 1.08. Successors and Assigns. All covenants, stipulations, promises and agreements in the Indenture by the Trust shall bind its successors and assigns, whether so expressed or not.

SECTION 1.09. Benefits of Indenture. Nothing in the Indenture or in any Note, expressed or implied, shall give to any Person other than the parties under the Indenture and their successors and the Holders, any legal or equitable right, remedy or claim under the Indenture.

SECTION 1.10. Language of Notices. Any request, demand, authorization, direction, notice, consent, election or waiver required or permitted under the Indenture shall be in the English language, except that, if the Trust so elects, any published notice may be in an official language of the country of publication.

SECTION 1.11. Governing Law.

(a) The Indenture and the Notes (unless otherwise specified in the Pricing Supplement) shall be governed by, and construed in accordance with, the laws of the State of New York without regard to conflict of law principles, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the Trust's ownership of the Funding Agreement and Guarantee, the perfection of the Indenture Trustee's security interest therein, or remedies under the Indenture in respect thereof may be governed by laws of a jurisdiction other than the State of New York.

(b) ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST THE TRUST, THE ASSETS OF THE TRUST, THE INDENTURE TRUSTEE, REGISTRAR, TRANSFER AGENT OR PAYING AGENT OR ANY OTHER AGENT, ARISING OUT OF OR RELATING TO THE INDENTURE, ANY NOTE OR ANY PORTION OF THE COLLATERAL MAY BE BROUGHT IN A UNITED STATES FEDERAL COURT OF COMPETENT JURISDICTION LOCATED IN NEW YORK CITY, THE BOROUGH OF MANHATTAN, AND BY EXECUTION AND DELIVERY OF THE INDENTURE EACH OF THE TRUST, THE INDENTURE TRUSTEE, THE REGISTRAR, THE TRANSFER AGENT, THE PAYING AGENT AND ANY OTHER AGENT (IN SUCH CAPACITIES) ACCEPT (AND WITH RESPECT TO THE TRUST, IN CONNECTION WITH ITS PROPERTY ACCEPTS), GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURT AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS (EXCEPT TO THE EXTENT A UNITED STATES FEDERAL COURT RAISES SUCH ISSUE ON ITS OWN MOTION) AND IRREVOCABLY AGREE TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THE INDENTURE, ANY NOTE OR ANY PORTION OF THE COLLATERAL.

SECTION 1.12. Waiver of Jury Trial. EACH OF THE PARTIES TO THE INDENTURE HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THE INDENTURE, THE NOTES OR ANY DEALINGS AMONG THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION. The scope of this waiver is intended to encompass any and all disputes that may be filed in any court and that relate to the subject matter of this transaction including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Each party under the Indenture acknowledges that this waiver is a material inducement to enter into a business relationship, that such party has already relied on the waiver in entering into the Indenture, and that such party will continue to rely on the waiver in its related future dealings. Each party under the Indenture

further warrants and represents that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THE INDENTURE OR ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE INDENTURE. In the event of litigation, the Indenture may be filed as a written consent to a trial by the court.

SECTION 1.13. Counterparts. The Indenture and any amendments, waivers, consents or supplements to the Indenture may be executed in any number of counterparts, and by different parties to the Indenture in separate counterparts, and each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. The Indenture shall become effective upon the execution of a counterpart of the Indenture by each of the parties to the Indenture.

SECTION 1.14. Third Party Beneficiaries. The Indenture will inure to the benefit of and be binding upon the parties to the Indenture, and the Trustee and their respective successors and permitted assigns.

SECTION 1.15. Conflict with Trust Indenture Act. If any provision of the Indenture limits, qualifies or conflicts with any duties imposed by any of Sections 310 to 317, inclusive, of the Trust Indenture Act through operation of Section 318(c) thereof, such imposed duties shall control.

ARTICLE 2  
THE NOTES

SECTION 2.01. Forms Generally.

(a) The Notes constitute direct, unconditional, unsubordinated and secured non-recourse obligations of the Trust and rank equally among themselves. The Notes shall be in substantially the form set forth in Exhibit A-1, Exhibit A-2 and Exhibit A-3 attached to the Indenture, as applicable, in each case with such appropriate insertions, omissions, substitutions and other variations as are required by the Indenture or as may in the Trust's judgment be necessary, appropriate or convenient to permit such Notes to be issued and sold, or to comply, or facilitate compliance, with applicable laws, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange on which such Notes may be listed, or as may, consistently with the Indenture, be determined by the Trustee (based conclusively on the advice of counsel) as evidenced by its execution thereof. Any portion of the text of any Note may be set forth on the reverse thereof with an appropriate reference on the face of the Note.

(b) The terms and provisions contained in the Notes shall constitute, and are hereby expressly made a part of the Indenture, and, to the extent applicable, the Indenture Trustee, by its execution and delivery of the Indenture, and the Trust by its execution and delivery of the Indenture, expressly agree to such terms and provisions and to be bound thereby.



(c) Except as described in this Section 2.01(c), no Global Note evidencing any of the Notes and deposited with or on behalf of any Clearing System shall be exchangeable for Definitive Notes. Subject to the foregoing sentence, if (i) such Clearing System notifies Principal Life that it is unwilling or unable to continue as Depository or Principal Life becomes aware that the Clearing System has ceased to be a clearing agency registered under the Securities Exchange Act and in any such case Principal Life fails to appoint a successor depository within sixty (60) calendar days after receiving the notice from such Clearing System or becoming aware that such Clearing System is no longer registered under the Exchange Act, (ii) an Event of Default shall have occurred and is continuing with respect to the Notes or (iii) the Trust shall have decided in its sole discretion that the Notes should no longer be evidenced solely by one or more Global Notes, then, pursuant to written instructions by Principal Life to the Indenture Trustee (in the case of clause (i)), or upon written request of the Holder (or accountholder of such Clearing System with an interest in the Notes) (in the case of clause (ii)), or pursuant to written instructions by the Trust to the Indenture Trustee and Clearing System (in the case of clause (iii)):

- (A) with respect to each Global Note evidencing such Notes, the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, Definitive Notes in authorized denominations in exchange for the Global Note, in an aggregate principal amount equal to the Outstanding principal amount of the related Global Note. Upon the exchange of the Global Note for the Definitive Notes, such Global Note shall be cancelled by the Registrar. Definitive Notes issued in exchange for a Global Note pursuant to this Section 2.01(c) shall be registered in the Register in such names and in such denominations as the Clearing System for such Global Note, pursuant to the instructions from its direct or indirect participants or otherwise, shall instruct the Indenture Trustee, serving as custodian, on behalf of the nominee of the Depository, of the Global Note. The Indenture Trustee shall immediately provide the information to the Registrar. Immediately after the authentication of the Definitive Notes by the Indenture Trustee, the Indenture Trustee shall deliver such Definitive Notes to the Holders of such Notes;
- (B) if Definitive Notes are issued in exchange for any portion of a Global Note after the close of business at the Office or Agency for such Note where such exchange occurs on (1) any Regular Record Date for such Notes and before the opening of business at such Office or Agency on the next Interest Payment Date, or (2) any Special Record Date for such Notes and before the opening of business at such Office or Agency on the related proposed date for payment of interest or Defaulted Interest, as the case may be, interest shall not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Definitive Notes, but shall be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such Global Note shall be payable in accordance with the provisions of the Indenture; and
- (C) if for any reason Definitive Notes are not issued, authenticated and delivered to the Holders in accordance with paragraph (A) of this Section 2.01(c), then:

(1) the Clearing System or its successors may provide to each of its accountholders a statement of such accountholder's interest in the Notes evidenced by each Global Note held by such Clearing System or its successors, together with a copy of such Global Note; and

(2) subject to the limitations on individual Holder action contained in the Notes or the Indenture, each such accountholder or its successors and assigns (x) shall have a claim, directly against the Trust, for the payment of any amount due or to become due in respect of such accountholder's interest in the Notes evidenced by such Global Note, and shall be empowered to bring any claim, to the extent of such accountholder's interest in the Notes evidenced by such Global Note and to the exclusion of such Clearing System or its successors, that as a matter of law could be brought by the Holder of such Global Note and the Person in whose name the Notes are registered and (y) may, without the consent and to the exclusion of such Clearing System or its successors, file any claim, take any action or institute any proceeding, directly against the Trust, to compel the payment of such amount or enforce any such rights, as fully as though the interest of such accountholder in the Notes evidenced by such Global Note were evidenced by a Definitive Note in such accountholder's actual possession and as if an amount of Notes equal to such accountholder's stated interest were registered in such accountholder's name and without the need to produce such Global Note in its original form.

Notwithstanding anything in this paragraph (C) to the contrary, the Indenture Trustee shall not be required to recognize any account holder or any of its successors and assigns referred to in said paragraph as a Holder for any purpose of the Indenture or the Notes and shall be entitled to treat the Person in whose name the Global Note is registered as a Holder for all purposes of the Indenture and the Notes if and until Definitive Notes are issued to and registered in the names of such accountholders or their successors and assigns.

The account records of any Clearing System or its successor shall, in the absence of manifest error, be conclusive evidence of the identity of each accountholder that has any interest in the Notes evidenced by the Global Note held by such Clearing System or its successor and the amount of such interest. Definitive Notes shall be issued only in denominations as specified in the relevant Pricing Supplement.

(d) Subject to the other provisions of the Indenture, if any Global Note is exchanged for Definitive Notes, then:

(i) the Trust, the Indenture Trustee and any Paying Agent will have the right to treat each Holder of Definitive Notes as the Person exclusively

entitled to receive interest and other payments or property in respect of or in exchange for the Notes, and otherwise to exercise all the rights and powers with respect to any Note (subject to the record date provisions of the Indenture and of the Notes); and

(ii) the obligation of the Trust to make payments of principal, premium, if any, interest and other amounts with respect to the Notes shall be discharged at the time payment in the appropriate amount is made in accordance with the Indenture to each Holder.

SECTION 2.02. No Limitation on Aggregate Principal Amount of Notes. The aggregate principal amount of Notes which may be authenticated and delivered under the Indenture is unlimited. Unless otherwise specified in the applicable Pricing Supplement, the Notes shall be issued in denominations of \$1,000 and any larger amount that is a multiple of \$1,000; the authorized denominations of Notes that have a Specified Currency other than U.S. Dollars will be the appropriate equivalent in such Specified Currency. The specific terms and conditions of the Notes shall be set out in a Pricing Supplement and, if applicable, a supplemental indenture entered into pursuant to Section 8.01(e).

SECTION 2.03. Listing. If specified in the Pricing Supplement, the Notes will be listed on the securities exchange set forth in such Pricing Supplement.

SECTION 2.04. Redemption and Repayment.

(a) Except as otherwise provided in the Pricing Supplement, a supplemental indenture and the Notes or in Section 6.02, the Trust will redeem the Notes only if Principal Life redeems the Funding Agreement securing such Notes in an amount equal to the amount of the related Notes to be redeemed in accordance with the terms of the Indenture and the Notes, and the Trust will not redeem the Notes if Principal Life does not redeem the Funding Agreement securing such Notes in an amount equal to the amount of the Notes to be redeemed in accordance with the Indenture and the Notes. Unless otherwise specified in the relevant Pricing Supplement and a supplemental indenture or the Notes, the Trust may not redeem the Notes after the date that is thirty (30) calendar days prior to the Stated Maturity Date.

(b) If, but only if, specified in the Pricing Supplement and a supplemental indenture or the Notes, such Notes will be repayable at the option of the Holders thereof in accordance with the repayment provisions included in the Pricing Supplement and supplemental indenture or the Notes.

(c) In connection with the redemption by the Trust of the Notes under Section 2.04(a), upon receipt by the Trust of notice of redemption of the Funding Agreement from Principal Life, the Trust will promptly give written notice of such redemption to the Indenture Trustee and the Indenture Trustee will give written notice to the Holders in accordance with Section 1.06 not less than thirty (30) calendar days and no more than sixty (60) calendar days prior to the date set for such redemption. All notices of redemption shall identify the Notes to be redeemed (including the CUSIP numbers) and shall state:

(i) the redemption date;

(ii) the Redemption Price or, if not then ascertainable, the manner of calculation thereof;

(iii) that on the redemption date the Redemption Price will become due and payable on the Notes to be redeemed and that interest thereon will cease to accrue on and after said date; and

(iv) the place or places where the Notes to be redeemed are to be surrendered for payment of the Redemption Price.

(d) Prior to 10:00 a.m. New York City time on the redemption date, the Trust shall deposit with the Paying Agent an amount of money sufficient to pay the Redemption Price of and accrued and unpaid interest on all Notes which are to be redeemed on that date.

(e) Upon notice of redemption having been given pursuant to Section 2.04(c), the Notes to be so redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Trust shall default in the payment of the Redemption Price and accrued interest, if any) such Notes shall cease to bear or accrue any interest. Upon surrender of the Notes for redemption in accordance with said notice, such Notes shall be paid by the Trust at the Redemption Price, together with any accrued but unpaid interest to but not including the redemption date.

(f) The election of the Trust to redeem any Notes shall be evidenced by a Trust Certificate. In case of any redemption at the election of the Trust, the Trust shall, at least forty-five (45) calendar days prior to the redemption date fixed by the Trust (unless a shorter notice shall be satisfactory to the Indenture Trustee), notify the Indenture Trustee of such redemption date, and of the principal amount of Notes to be redeemed. In the case of any redemption of Notes (a) prior to the expiration of any restriction on such redemption provided in the terms of such Notes or elsewhere in the Indenture, or (b) pursuant to an election of the Trust which is subject to a condition specified in the terms of such Notes or elsewhere in the Indenture, the Trust shall furnish the Indenture Trustee with a Trust Certificate evidencing compliance with such restriction or condition.

(g) If less than all of the Notes are to be redeemed (unless such redemption affects only a single Note), the particular Notes to be redeemed shall be selected not more than sixty (60) calendar days prior to the redemption date by the Indenture Trustee, from the Outstanding Notes not previously called for redemption, by lot or pro rata, in its reasonable discretion, in accordance with the customary procedures of the Indenture Trustee; provided that the unredeemed portion of the principal amount of any Note shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Note; provided further, that if at the time of redemption such Notes are registered as Global Notes, the Depositary shall determine, in accordance with its procedures, the principal amount of such Notes to be redeemed by each of the Depositary's participants.

The Indenture Trustee shall promptly notify the Trust in writing of the Notes selected for redemption as aforesaid and, in the case of any Notes selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

For all purposes of the Indenture, unless the context otherwise requires, all provisions relating to the redemption of Notes shall relate, in the case of any Notes redeemed or to be redeemed only in part, to the portion of the principal amount of such Notes which has been or is to be redeemed.

(h) Any Note which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Trust or the Indenture Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trust and the Indenture Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Trust shall execute, and the Indenture Trustee shall authenticate and deliver to the Holder of such Note without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

(i) The Notes will not be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the Pricing Supplement and a supplemental indenture of the Notes.

#### SECTION 2.05. Execution, Authentication and Delivery Generally.

(a) Upon the execution of any terms agreement pursuant to the Distribution Agreement (if the Relevant Agents agree to purchase the Notes on a principal basis), the acceptance of an offer to purchase Notes solicited by the Relevant Agents on an agency basis, or the acceptance of a direct offer of Notes for sale by the Trust, the Trust shall, as soon as practicable but in any event (unless otherwise agreed by the parties) not later than 11:00 a.m. (New York time) on the second Business Day following the date of Principal Life's acceptance of the offer for the purchase of Notes:

(i) confirm by fax to the Indenture Trustee, the Paying Agent and the Registrar, all such information as the Indenture Trustee, the Paying Agent or the Registrar may reasonably require to carry out their respective functions under the Indenture, including, in particular, the settlement and payment procedures that will apply to the relevant Notes and, if applicable, the account of the Trust to which payment should be made;

(ii) deliver a copy of the Pricing Supplement or duly executed supplemental indenture in relation to the relevant Notes to the Indenture Trustee, the Paying Agent and the Registrar; and

(iii) unless a Global Note is to be used and the Trust shall have provided such Global Note to the Registrar pursuant to Section 2.05(c), ensure that there is delivered to the Registrar a stock of Definitive Notes (in unauthenticated form and with the names of the registered Holders left blank but duly executed on behalf of the Trust and otherwise complete) in relation to the relevant Notes.

(b) The Trust will deliver to the Indenture Trustee on the Original Issue Date for the Notes a duly executed original of the Funding Agreement, Guarantee and Trust Agreement (unless previously delivered) and all documentation relating to the foregoing for the Notes.

(c) The Trust may, at its option, and shall, at the request of the Registrar, deliver from time to time to the Registrar a stock of Global Notes (in unauthenticated form but duly executed on behalf of the Trust).

(d) The Registrar shall, having been advised in accordance with Section 2.05(a) on behalf of the Trust, on which securities exchange, if any, the Notes are to be listed, deliver a copy of the Pricing Supplement or supplemental indenture in relation to each relevant Notes to such exchange or the relevant listing agent for such exchange as soon as practicable but in any event no later than two (2) Business Days prior to the proposed Original Issue Date therefor.

(e) Having received from the Trust the documents referred to in Section 2.05(a), (b) and (c) (to the extent applicable) (such documents constituting for all purposes of the Indenture a Trust Order for the authentication and delivery of the applicable Notes), on or before 10:00 a.m. (New York time) on the Original Issue Date in relation to the Notes (unless otherwise agreed by the parties), the Indenture Trustee shall authenticate and deliver the relevant Global Note to the relevant custodian for DTC and/or any other relevant Clearing System or otherwise in accordance with such Clearing System's procedures. The Indenture Trustee shall give instructions to DTC and/or any other relevant Clearing System to credit Notes represented by a Global Note registered in the name of a nominee for such Clearing System, to the Indenture Trustee's distribution account and to hold each such Note to the order of the Trust pending delivery to the Relevant Agent(s) on a delivery against payment basis (or on such other basis as shall have been agreed between the Trust and the Relevant Agent(s) and which the Indenture Trustee has been notified) in accordance with the normal procedures of DTC or such other Clearing System, as the case may be and, following payment (unless otherwise agreed), to debit the Notes represented by such Global Note to such securities account(s) as shall have been notified in writing to the Indenture Trustee by the Trust. The Indenture Trustee shall on the Original Issue Date in respect of the relevant Notes, and upon receipt of funds from the Relevant Agent(s), transfer, or cause to be transferred, the proceeds of issue (net of any applicable commissions, fees or like amounts specified in writing by Principal Life) to or as directed by Principal Life on behalf of the Trust to satisfy the deposit requirement pursuant to the Funding Agreement (as specified by Principal Life in such direction).

If no such securities account(s) shall have been specified, or the relevant Notes is not intended to be cleared through any Clearing System, the Indenture Trustee shall authenticate and make available at its specified office on the Original Issue Date in respect of the relevant Notes the relevant Global Note or the relevant Definitive Notes, as the case may be, duly executed and made available to the Indenture Trustee by the Trust.

(f) If the Indenture Trustee should pay an amount (an "ADVANCE") to the Trust in the belief that a payment has been or will be received from the Relevant Agents, and if such payment is not received by the Indenture Trustee on the date that the Indenture Trustee pays the Trust, the Trust shall forthwith repay the advance (unless prior to such repayment the payment is received from the Relevant Agents) and shall pay interest on such amount which shall accrue

(after as well as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an advance paid in Sterling) and the actual number of days elapsed from the date of payment of such advance until the earlier of (i) repayment of the advance or (ii) receipt by the Indenture Trustee of the payment from the Relevant Agents, and at the rate per annum which is the aggregate of one per cent per annum and the rate determined and certified by the Indenture Trustee and expressed as a rate per annum as reflecting its cost of funds for the time being in relation to the unpaid amount.

(g) The Notes shall be executed on behalf of the Trust by a Responsible Officer of the Trustee. The signature of any of these officers on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signatures of individuals who were at any time Responsible Officers of the Trustee shall bind the Trust, notwithstanding that any such individuals have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

Each Note shall be dated the date of its authentication.

No Note shall be entitled to any benefit under the Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form provided for in the Indenture executed by the Indenture Trustee by manual signature of an authorized officer, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered under the Indenture.

The Indenture Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Notes of Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.,  
As Indenture Trustee

By: \_\_\_\_\_  
Authorized Signatory

Notes bearing the manual signatures of individuals who were at any time authorized officers of the Indenture Trustee shall bind the Trust, notwithstanding that any such individuals have ceased to hold such offices prior to the delivery of such Notes or did not hold such offices at the date of such Notes.

In authenticating Notes under the Indenture, the Indenture Trustee shall be entitled to conclusively assume that any Note authenticated by it has been duly executed on behalf of, and is a legal, valid, binding and enforceable obligation of, the Trust and is entitled to the benefits of the Indenture, and that the Trust Agreement, the Funding Agreement and the

Guarantee have been duly executed by, and are the legal, valid, binding and enforceable obligations of, the parties thereto.

(h) The Trust undertakes to notify the Paying Agent, the Registrar and, if different, the Indenture Trustee, in writing, of any changes in the identity of the agents appointed generally in respect of the Program.

SECTION 2.06. Registration. All Notes shall be registered and may be represented either as Global Notes or Definitive Notes. Unless otherwise specified in the relevant Pricing Supplement, Global Notes will be registered in the name of a nominee for, and deposited with, a custodian for DTC. The Registrar shall maintain a register (in the Indenture sometimes referred to as the "REGISTER") in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration of the Notes and registration of transfer of the Notes. The Register shall be in written form in English or in any other form capable of being converted into such form within a reasonable time. The Indenture Trustee is hereby initially appointed as the Registrar. In the event that the Indenture Trustee shall not be the Registrar, it shall have the right to examine the Register at all reasonable times. Subject to the definition of "Outstanding" in Section 1.01, the Trust, the Indenture Trustee, the Registrar or the Paying Agent or any other Agent may become the owner or pledgee of Notes and may deal with such Notes with the same rights of any other Holder of such Notes.

#### SECTION 2.07. Transfer.

(a) Subject to Section 2.01(c) and (d), (A) upon surrender for registration of transfer of any Note in accordance with its terms, the Trustee, on behalf of the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes denominated as authorized in or pursuant to the Indenture, of a like aggregate principal amount bearing a number not contemporaneously outstanding and containing identical terms and provisions and (B) at the option of the Holder, Notes may be exchanged, in accordance with their terms, for other Notes containing identical terms and provisions, in any authorized denominations, and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at the Office or Agency of the Indenture Trustee. Whenever any Notes are surrendered for exchange as contemplated by this Section 2.07(a), the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, the Notes which the Holder making the exchange is entitled to receive. Definitive Notes shall not be exchanged for Global Notes. Beneficial interests in Global Notes may be transferred or exchanged only through the Depository. No Global Note may be transferred except as a whole by a nominee of the Depository to the Depository or to another nominee of the Depository, or by the Depository or another nominee of the Depository to a successor of the Depository or a nominee of a successor to the Depository. With respect to any Global Note, the Depository or its nominee is the Holder of such Global Note for the purposes of the Indenture. Except as set forth in Section 2.01(c), the beneficial owners of any Global Note will not be entitled to receive Definitive Notes and shall not be considered "Holders" under the Indenture.

(b) All Notes issued upon a registration of transfer or exchange of Notes shall be the valid obligations of the Trust evidencing the same debt and entitling the Holders thereof to



the same benefits under the Indenture as the Notes surrendered upon such registration of transfer or exchange.

(c) No service charge shall be made for any registration of transfer or exchange, of Notes, but the Indenture Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes (other than certain exchanges not involving any transfer).

#### SECTION 2.08. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Indenture Trustee directly or through any Paying Agent or (ii) in the case of an alleged destroyed, lost or stolen Note, the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of the Note and there is delivered to the Indenture Trustee, the Registrar and the Trust such security or indemnity as may be required by the Indenture Trustee, the Registrar and the Trust to save the Indenture Trustee, the Registrar and the Trust harmless, then in either case the Trust shall execute and the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen Note, a new Note, of the same maturity, tenor and principal amount as such mutilated, destroyed, lost or stolen Note, bearing a number not contemporaneously outstanding; provided, however, that if any such mutilated, destroyed, lost or stolen Note shall have become or shall be about to become due and payable, instead of issuing a new Note, the Trust may pay such Note without surrender of such Note, except that any mutilated Note shall be surrendered.

(b) Upon the issuance of any new Note under this Section 2.08, the Indenture Trustee or the Trust may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee, Registrar or any Paying Agent) in connection therewith.

(c) Every new Note issued pursuant to this Section 2.08 in lieu of any destroyed, lost or stolen Note shall constitute a separate obligation of the Trust, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Notes duly issued under the Indenture. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

#### SECTION 2.09. Payment of Interest; Rights To Interest Preserved.

(a) The Notes shall bear interest at a rate and on terms stated on the Notes.

(b) Any interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date, shall be paid to the Person in whose name that Note is registered at the close of business on the Regular Record Date for such interest payment (except that interest, if any, on any Note due on the Maturity Date will be paid to the Person to whom the principal of the Note is paid).

(c) Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (in the Indenture called "DEFAULTED INTEREST") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of their having been such Holder, and such Defaulted Interest shall be paid by the Trust to the Persons in whose names such Notes (or their respective predecessor Notes) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trust shall notify the Indenture Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment. Thereupon the Indenture Trustee shall fix a date for the payment of such Defaulted Interest which shall be not more than fifteen (15) days and not less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Indenture Trustee of the notice of the proposed payment (the "SPECIAL RECORD DATE"). The Indenture Trustee shall promptly notify the Trust of such Special Record Date and, in the name of the Trust shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder in accordance with Section 1.06. The Trust may make payment of any Defaulted Interest on the Notes in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which such Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Trust to the Indenture Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Indenture Trustee. Subject to the foregoing provisions of this Section, each Note delivered under the Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 2.10. Cancellation. All Notes surrendered for payment, registration of transfer or exchange shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly cancelled by it. Principal Life or any Affiliate thereof shall promptly deliver to the Indenture Trustee for cancellation any Note previously authenticated and delivered under the Indenture that Principal Life or such Affiliate may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Indenture Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by the Indenture. All cancelled Notes held by the Indenture Trustee shall be disposed of by the Indenture Trustee in accordance with its customary procedures, unless the Trust shall otherwise direct by a Trust Order.

SECTION 2.11. Persons Deemed Owners. Prior to due presentment for registration of transfer of any Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust, or the Indenture Trustee may treat the Person in whose name any Note is registered as the absolute and sole owner of such Note for the purpose of receiving payment of the principal of, any premium, or interest on or any Additional Amounts with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and, except as otherwise required by applicable law, none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

SECTION 2.12. Tax Treatment; Tax Returns and Reports.

(a) The Trust agrees, and by acceptance of a beneficial interest in a Note, each holder of a beneficial interest in a Note agrees, for U.S. federal, state and local income and franchise tax purposes, to (i) disregard the Trust and (ii) treat such Note as debt of Principal Life.

(b) The Trust Agreement provides that the Trustee shall prepare and file or cause to be prepared or filed, consistent with the treatment of the Trust as disregarded, all federal, state and local income tax and information returns and reports required to be filed with respect to the Trust and the Notes under any applicable federal, state or local tax statute or any rule or regulation under any of them. The Trust Agreement provides that the Trustee shall keep copies or cause copies to be kept of any such tax and information returns and reports required to be filed. The Indenture Trustee agrees to provide to the Trustee such information, upon receipt of written request from the Trust, as is necessary for the Trustee to fulfill its obligations under this Section 2.12.

SECTION 2.13. No Association. Nothing set forth in the Indenture shall be construed to constitute the Holders of Notes, from time to time, as members of an association.

SECTION 2.14. Administrative Procedures. The Indenture Trustee shall comply with the Procedures (as defined in the Distribution Agreement), as they may be amended from time to time in accordance with the terms of the Distribution Agreement.

ARTICLE 3  
COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 3.01. Payment of Principal and any Premium, Interest and Additional Amounts. The Trust covenants and agrees, for the benefit of the Holders of the Notes, that it will:

(a) Pay or cause to be paid to the Paying Agent on or before the date on which any payment becomes due, an amount equal to the amount of principal (and premium, if any) and interest and any Additional Amount (if applicable) payable in respect of the Notes then becoming due in respect of the Notes.

(b) Pay each amount payable to the Paying Agent under Section 3.01(a) by transfer of immediately available funds denominated in the Specified Currency not later than 10:00 a.m. (at the Place of Payment) on the date when such amounts are due and payable in respect of the Notes.

(c) Confirm, before 10:00 a.m. (at the Place of Payment) on the second Business Day before the due date of each payment by it under Section 3.01(a) to the Paying Agent by confirmed facsimile, that irrevocable instructions have been given by it, for the transfer of the relevant funds to the Paying Agent and the name and the account of the bank through which such payment is being made.

For purposes of this Section 3.01, an installment of principal, premium, if any, or interest and any other amount payable in respect of the Notes shall be considered paid on the date it is due if the Trust has deposited, or caused to be deposited, with the Paying Agent by such date money designated for, and capable of being applied towards, and sufficient to pay such installment.

SECTION 3.02. Collection Account. The Indenture Trustee shall, on or prior to the initial Original Issue Date, establish a non-interest bearing account with the Indenture Trustee or such other depository institution that is rated at least AA- or Aa3 by a nationally recognized statistical rating organization as may be designated by the Trustee, in the name of the Trust, which account shall collect payments received under the applicable Funding Agreement and/or related Guarantee and shall be segregated from other accounts held by the Indenture Trustee or such other depository institution.

SECTION 3.03. Agreements of the Paying Agent. The Paying Agent agrees that:

(a) The Paying Agent shall be entitled to deal with each amount paid to it under the Indenture in the same manner as other amounts paid to it as a banker by its customers provided that:

(i) the Paying Agent shall not, against the Trust or any Holder of a Note, exercise any lien, right of set-off or similar claim in respect thereof (except as otherwise provided or permitted under the Indenture);

(ii) the Paying Agent shall not be liable to any Person for interest thereon;

(iii) the Paying Agent need not segregate any money held by it except as required by law or as otherwise provided under the Indenture; and

(iv) the Paying Agent shall comply with the provisions of Section 317(b) of the Trust Indenture Act and agrees that it will, during the continuance of any default by the Trust (or any other obligor upon the Notes) in the making of any payment in respect of the Notes, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums held in trust by such Paying Agent for payment in respect of the Notes.

(b) The Paying Agent shall pay or cause to be paid by transfer of immediately available funds denominated in the Specified Currency to the Holders all moneys received by the Paying Agent for such purpose from the Trust pursuant to Section 3.01. In the event a Note is issued between a Regular Record Date or Special Record Date and the related Interest Payment Date, interest for the period beginning on the original issue date for such Note or the previous Interest Payment Date, as the case may be, and ending on the subject Interest Payment Date will be paid on the immediately following Interest Payment Date to the Person who was the registered Holder of such Note as of the immediately preceding Regular Record Date. With respect to Global Notes, the Paying Agent shall pay principal, premium, if any, interest and any other amounts due on such Global Notes in accordance with the Notes and the arrangements established by and between the Paying Agent and the Depository. Notwithstanding anything in the Indenture to the contrary, payments of principal and premium, if any, in respect of Definitive

Notes on the Maturity Date shall be made as provided in or pursuant to the Indenture in immediately available funds against presentation and surrender of the relevant Definitive Notes at the designated office of the Registrar in The City of New York, as provided in the Indenture or in the applicable Definitive Note. Payments of interest and other amounts due and owing, if any, on the Maturity Date of Definitive Notes shall be made to the Person to whom payment of the principal thereof and premium, if any, thereon shall be made.

Notwithstanding anything in the Indenture to the contrary, interest on Definitive Notes other than on the Maturity Date shall be paid to the person shown in the applicable Register at the close of business on the Regular Record Date or Special Record Date, as applicable, as provided in or pursuant to the Indenture before the due date for payment thereof. Notwithstanding anything in the Indenture to the contrary, payments of interest and other amounts due and owing on each Definitive Note other than the Maturity Date shall be made in the currency in which such payments are due by check drawn on a bank in the Principal Financial Center of the country of the Specified Currency and mailed to the holder (or to the first named of joint holders) of such Definitive Note at its address appearing in the applicable Register. Notwithstanding the foregoing, the Paying Agent shall make, or cause to be made, payments of interest and other amounts due and owing, if any, on a Definitive Note on any Interest Payment Date other than the Maturity Date to each Holder of \$10,000,000 (or, if the Specified Currency is other than United States dollars, the equivalent thereof in the particular Specified Currency) or more in aggregate principal amount of Definitive Notes by wire transfer of immediately available funds if the applicable Holder has delivered appropriate wire transfer instructions in writing to the Paying Agent not less than fifteen (15) calendar days prior to the particular Interest Payment Date. Any such wire transfer instructions received by the Paying Agent shall remain in effect until revoked by the applicable Holder. All moneys paid to the Paying Agent by the Trust in respect of any Note shall be held by the Paying Agent from the moment when such moneys are received until the time of actual payment thereof, for the persons entitled thereto, and shall be applied in accordance with Section 3.03 (c) through (g); provided, that the obligation of the Paying Agent to hold such moneys shall be subject to the provisions of Section 3.08.

(c) The Paying Agent acting through its specified office shall make payments of interest and Additional Amounts (if applicable) or, as the case may be, principal in respect of the Notes in accordance with the terms thereof and of the Indenture, provided that such Paying Agent shall not be obliged (but shall be entitled) to make such payments if it is not able to establish that it has received (whether or not at the due time) the full amount of the relevant payment due to it under Section 3.01(a). Payment of any Note redemption amount (together with accrued interest) due in respect of Notes will be made against presentation and surrender of the relevant Notes at the specified office of the Paying Agent, subject to Section 2.04(h). Payment of amounts (whether principal, interest or otherwise) due in respect of Notes will be paid by the Paying Agent to the Holder thereof (or, in the case of joint Holders, the first named) which shall be the person appearing as Holder in the register kept by the Registrar as at the close of business (local time in the place of the specified office of the Registrar) on the Regular Record Date.

(d) If a Paying Agent makes any payment in accordance with paragraph (c), it shall be entitled to appropriate for its own account out of the funds received by it under Section 3.01(a) an amount equal to the amount so paid by it.

(e) If a Paying Agent makes a payment in respect of Notes at a time at which it has not received the full amount of the relevant payment due to it under Section 3.01(a) and is not able to reimburse itself out of funds received by it under Section 3.01(a) therefor by appropriation under paragraph (e), the Trust shall from time to time on demand pay to the Paying Agent for its own account:

(i) the amount so paid out by such Paying Agent and not so reimbursed to it; and

(ii) interest on such amount from the date on which such Paying Agent made such payment until the date of reimbursement of such amount;

provided that any payment made under clause (i) above shall satisfy pro tanto the Trust's obligations under Section 3.01(a).

(f) Interest shall accrue for the purpose of clause (ii) of paragraph (f) (as well after as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an amount in Sterling) and the actual number of days elapsed and at the rate per annum which is the aggregate of one percent per annum and the rate per annum specified by the Paying Agent as reflecting its cost of funds for the time being in relation to the unpaid amount.

(g) If at any time and for any reason a Paying Agent makes a partial payment in respect of any Note surrendered for payment to it, such Paying Agent shall endorse thereon and in the Register a statement indicating the amount and date of such payment.

#### SECTION 3.04. Maintenance of Office or Agency.

(a) The Trust will maintain in the Place of Payment an Office or Agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trust in respect of the Notes and the Indenture may be served; provided, however, that if the Notes are listed on any stock exchange and the rules of such stock exchange shall so require, the Trust shall maintain an Office or Agency in any other required city so long as the Notes are listed on such exchange. The Trust will give prompt written notice to the Indenture Trustee of the location, and any change in the location, of such Office or Agency. If at any time the Trust shall fail to maintain any such required Office or Agency or shall fail to furnish the Indenture Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Indenture Trustee and the Trust hereby appoints the Indenture Trustee as its agent to receive such respective presentations, surrenders, notices and demands. The Trust shall promptly notify the Indenture Trustee of the name and address of each Paying Agent (if different than the Indenture Trustee) appointed by it and will notify the Indenture Trustee of the resignation or termination of any Paying Agent.

(b) The Trust may also from time to time designate one or more other Offices or Agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or

rescission shall in any manner relieve the Trust of its obligation to maintain the Offices or Agencies for Notes in the Place of Payment for the foregoing purposes. The Trust shall give prompt written notice to the Indenture Trustee of any such designation or rescission and of any change in the location of any such Office or Agency.

(c) Unless otherwise provided in or pursuant to the Indenture, the Trust hereby appoints the Indenture Trustee as Paying Agent, Registrar and Transfer Agent.

#### SECTION 3.05. Duties of the Agents.

(a) The Trust shall provide to the Paying Agent sufficient copies of all documents required to be available for inspection as provided in the Registration Statement or the Pricing Supplement in respect of the Notes.

(b) To the extent permitted by applicable law, the Paying Agent shall make available for inspection during normal business hours at its specified office such documents as may be specified as so available at the specified office of the Paying Agent in respect of the Notes, or as may be required by any stock exchange on which the Notes may be listed.

(c) Notwithstanding anything to the contrary, the Trust shall be solely responsible for ensuring that each Note to be issued or other transactions to be effected under the Indenture shall comply with all applicable laws and regulations of any governmental or other regulatory authority in connection with any Note and that all necessary consents and approvals of, notifications to and registrations and filings with, any such authority in connection therewith are effected, obtained and maintained in full force and effect.

(d) The Paying Agent shall collect all forms from Holders or, in the case of Notes held in a Clearing System, from the relevant Clearing System, that are required to exempt payments under the Notes, the related Guarantee, and/or the related Funding Agreement, from United States federal income tax withholding. The Paying Agent shall (i) withhold from each payment under the Indenture or under any Note any and all United States federal or state withholding taxes applicable thereto as required by law and (ii) file any information reports as it may be required to file under applicable law.

(e) Each Agent shall be obligated to perform such duties and only such duties as are set out in the Indenture and no implied duties or obligations shall be read into the Indenture against such Agent.

(f) Each Agent shall be protected and shall incur no liability for or in respect of any action taken, omitted or suffered in reliance upon any instruction, request or order from the Trust or any notice, resolution, direction, consent, certificate, affidavit, statement, facsimile, telex or other paper or document (duly signed or which it believes in good faith to have been duly signed, where applicable) which it believes in good faith to be genuine and to have been delivered, signed or sent by the proper party or parties.

(g) Each Agent and any of its officers, directors, employees or controlling persons may become the owner of, or acquire any interest in, any Note, with the same rights that it or he would have if it or he were not appointed under the Indenture, and may engage or be

interested in, any financial or other transaction with the Trust, PFG or Principal Life, or any Affiliate thereof, or may act as depositary, trustee or agent for any committee or body of Holders, as freely as if it or he were not appointed under the Indenture.

(h) Each Agent may consult with legal and other professional advisers and the opinion of the advisers shall be full and complete protection in respect of action taken, omitted or suffered under the Indenture in good faith and in accordance with the opinion of the advisers.

(i) Under no circumstances will the Paying Agent or any other Agent be liable to the Trust, or any other party to the Indenture for any consequential loss (being loss of business, goodwill, opportunity or profit), punitive damages or indirect loss even if advised of the possibility of such loss.

SECTION 3.06. Duties of the Transfer Agent. If and to the extent specified in the terms and conditions of the Notes or if otherwise requested by the Trust or Indenture Trustee, the Transfer Agent shall in compliance with the Notes and the Indenture:

(a) Receive requests from Holders of Notes for the transfer of Definitive Notes, inform the Registrar in writing of the receipt of such requests, forward the deposited Definitive Note(s) to or to the order of the Registrar and assist in the issuance of a new Definitive Note and in particular, without limitation, notify the Registrar in writing of (i) the name and address of the Holder of the Definitive Note, (ii) the serial number and principal amount of the Definitive Note, (iii) in the case of a transfer of a portion of the Note only, the principal amount of the Definitive Note to be so transferred and (iv) the name and address of the transferee to be entered on the Register;

(b) Make available for collection by each relevant Holder new Definitive Notes;

(c) Accept surrender of Definitive Notes and assist in effecting final payment of the Notes on the due date for payment;

(d) Keep the Registrar informed of all transfers; and

(e) Carry out such other acts as may reasonably be necessary to give effect to the Notes and the Indenture.

SECTION 3.07. Duties of the Registrar.

(a) The Registrar shall maintain a Register which shall show the aggregate principal amount and date of issue of the Notes, the names and addresses of the initial Holders thereof and the dates of all transfers to, and the names and addresses of, all subsequent Holders thereof.

(b) The Registrar shall by the issue of new Notes, the cancellation of old Notes and the making of entries in the Register give effect to transfers of Notes in accordance with the Indenture.



(c) The Trust may from time to time deliver to the Registrar Notes of which it is the Holder for cancellation, whereupon the Registrar shall cancel the same and shall make the corresponding entries in the Register.

(d) As soon as reasonably practicable but in any event within ninety (90) calendar days after each date on which Notes fall due for redemption, the Registrar shall notify the Trust of the serial numbers of any Notes against surrender of which payment has been made and of the serial numbers of any Notes (and the names and addresses of the Holders thereof) which have not yet been surrendered for payment.

(e) The Registrar shall, upon and in accordance with the instructions of the Trust but not otherwise, arrange for the delivery in accordance with the Indenture of any notice which is to be given to the Holders of Notes and shall supply a copy thereof to the Indenture Trustee and the Paying Agent.

(f) The Trust shall ensure that the Registrar has available to it supplies of such Notes as shall be necessary in connection with the transfer of Notes and the exchange of Global Notes for Definitive Notes. (g) The Registrar shall make available, at the request of the Holder of any Note, forms of proxy in a form and manner which comply with the provisions of the Indenture and shall perform and comply with the provisions of the Indenture.

(h) The Trust shall provide to the Registrar:

(i) specimen Notes in definitive form; and

(ii) sufficient copies of all documents required to be available for inspection as provided in the Registration Statement or the Pricing Supplement in respect of the Notes, as may be required by any securities exchange on which the Notes may be listed, or as may be required by applicable law.

(i) The Registrar shall make available for inspection during normal business hours at its specified office such documents as may be specified as so available at the specified office of such Registrar, as may be required by any securities exchange on which the Notes may be listed, or as may be required by applicable law.

(j) The Registrar shall provide the Paying Agent and/or the Indenture Trustee with all such information in the Registrar's possession with respect to the Notes as the Paying Agent or the Indenture Trustee, as the case may be, may reasonably require in order to perform the obligations set out in the Indenture.

(k) The Registrar shall ensure that in no event shall Definitive Notes be exchanged for Global Notes.

SECTION 3.08. Unclaimed Monies. Any money deposited with the Indenture Trustee, Registrar or the Paying Agent for the payment of the principal of, premium, if any, or interest on

any Note and remaining unclaimed for two years after such principal or any such premium or interest had become due and payable shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be paid to Principal Life pursuant to a Trust Request and pursuant to the applicable Funding Agreement; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to Principal Life for payment thereof, and all liability of the Indenture Trustee, Registrar or the Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee, Registrar or the Paying Agent, before being required to make any such repayment, may cause to be published once, in an Authorized Newspaper in each Place of Payment or to be mailed to Holders, or both, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (30) calendar days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to Principal Life.

#### SECTION 3.09. Protection of Collateral.

(a) The Trust shall, from time to time, execute and deliver all such supplements and amendments to the Indenture and all such financing statements, continuation statements, instruments of further assurance, and other instruments, and take such other action as may be necessary or advisable to:

(i) create, perfect or maintain a perfected security interest in, grant, or make or maintain a valid and effective assignment for collateral purposes of, all or any portion of the Collateral (including without limitation the Funding Agreement and the Guarantee included therein);

(ii) maintain or preserve any Lien of the Indenture, the Funding Agreement or the Guarantee or carry out more effectively the purposes of the Indenture or thereof;

(iii) perfect, publish notice of, or protect the validity of, any security interest or assignment for collateral purposes made pursuant to the Indenture, the Funding Agreement or the Guarantee;

(iv) enforce any portion, or obtain the full benefits, of the Collateral (including without limitation the Funding Agreement and the Guarantee included therein); and

(v) preserve and defend title to the Collateral and the rights of the Indenture Trustee and of the Holders in the Collateral held for the benefit and security of the Holders or other instrument against the claims of all Persons.

The Trust hereby designates the Indenture Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required or permitted pursuant to this Section 3.09; provided, however, that the duty of the Indenture Trustee to execute any instrument required pursuant to this Section 3.09 shall arise only if any Responsible Officer of the Indenture Trustee has actual knowledge of any failure of the Trust to comply with the provisions of this Section 3.09.

(b) The Trust will pay or cause to be paid all taxes and fees incidental to such filing, registration and recording, and all expenses incidental to the preparation, execution and acknowledgment of any instrument of further assurance, and all Federal or state or jurisdiction of organization of the Trust stamp taxes or other similar taxes, duties and charges arising out of or in connection with the execution and delivery of such instruments; provided, however, that the Trust shall not be required to pay or discharge or cause to be paid or discharged any Lien affecting the Collateral to the extent such Lien is being contested in good faith by appropriate proceedings. The Trust will at all times preserve, warrant and defend the Indenture Trustee's title and right in and to the property included in the Collateral against the claims of all Persons.

(c) The Trust will faithfully observe and perform, or cause to be observed and performed, all its covenants, agreements, conditions and requirements contained in the Funding Agreement in accordance with the terms thereof and will maintain the validity and effectiveness of the Funding Agreement and the security interest therein or the assignment for collateral purposes thereof to the Indenture Trustee. The Trust will take no action, nor permit any action to be taken, which will release any party to the Funding Agreement from any of its obligations or liabilities thereunder, or will result in the termination, modification or amendment, or will impair the validity, of the Funding Agreement except as expressly provided for in the Indenture and therein. The Trust will give the Indenture Trustee written notice of any default by any party to the Funding Agreement promptly after it becomes known to the Trust.

(d) The Trust will faithfully observe and perform, or cause to be observed and performed, all its covenants, agreements, conditions and requirements contained in the Guarantee in accordance with the terms thereof and will maintain the validity and effectiveness of the Guarantee and the security interest therein or the assignment for collateral purposes thereof to the Indenture Trustee. The Trust will take no action, nor permit any action to be taken, which will release any party to the Guarantee from any of its obligations or liabilities thereunder, or will result in the termination, modification or amendment, or will impair the validity, of the Guarantee except as expressly provided for in the Indenture and therein. The Trust will give the Indenture Trustee written notice of any breach by any party to the Guarantee promptly after it becomes known to the Trust.

(e) At the written request of the Indenture Trustee and also following the occurrence of an "Event of Default" under the Funding Agreement or a breach of PFG's obligations under the Guarantee, the Trust will, subject to the written direction and control of the Indenture Trustee, take such action, or at the Indenture Trustee's written request furnish funds sufficient to enable the Indenture Trustee to take such action, as the Indenture Trustee may deem necessary or advisable for enforcing payment when due, subject to applicable notice and grace periods, under or pursuant to the Indenture, the Funding Agreement or the Guarantee.

#### SECTION 3.10. Opinions as to Collateral; Annual Statement as to Compliance.

(a) On or before the 15th day of March of each calendar year, commencing March 15, 2005, the Trust shall furnish or cause to be furnished to the Indenture Trustee an Opinion of Counsel stating that, in the opinion of such counsel, either (i) such action has been taken with respect to the recording, filing, re-recording and re-filing of the Indenture, any indentures supplemental to the Indenture and any other requisite documents and with respect to the execution and filing of

any financing statements and continuation statements as is necessary to perfect and/or maintain the perfection of liens, security interests and assignments for collateral purposes created or effected pursuant to the Indenture with respect to the Funding Agreement and the Guarantee that is part of any Collateral and reciting the details of such action or (ii) in the opinion of such counsel no such action is necessary to perfect and/or maintain the perfection of such lien, security interest and/or assignment for collateral purposes. Such Opinion of Counsel shall also describe the recording, filing, re-recording and re-filing of the Indenture, any indentures supplemental to the Indenture and any other requisite documents and the execution and filing of any financing statements and continuation statements that will, in the opinion of such counsel, be required to perfect and/or maintain the perfection of the liens, security interests and assignments for collateral purposes created or effected pursuant to the Indenture with respect to the Funding Agreement and the Guarantee that is part of any Collateral until the 15th day of March in the following calendar year.

(b) On or before the 15th day of March in each calendar year, commencing March 15, 2005, the Trust shall deliver to the Indenture Trustee a Trust Certificate stating, as to each signer thereof, that in the course of the performance by each signer of such Trust Certificate of his or her present duties as a Responsible Officer of the Trustee, such signer would normally obtain knowledge as to the existence of any condition or event which would constitute a Default or an Event of Default and that to the best of such signer's knowledge:

(i) a review of the fulfillment by the Trust and during such year of its obligations under the Indenture has been made under the supervision of such signer; and

(ii) the Trust has fulfilled in all material respects its obligations under the Indenture throughout such year, or, if there has been a Default or an Event of Default in the fulfillment of any such obligation, specifying each such Default or Event of Default known to such signer and the nature and status thereof.

(c) The Trust, pursuant to Section 314(a) of the Trust Indenture Act, shall:

(i) file, or cause to be filed, with the Indenture Trustee, within fifteen (15) days after the Trust or Principal Life is required to file the same with the Commission and to the extent available to the Trust, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Trust or Principal Life may be required to file with the Commission in connection with the Program pursuant to Section 13 or Section 15(d) of the Securities Exchange Act; or, if the Trust or Principal Life is not required to file information, documents or reports pursuant to either of said Sections, then it shall file, or cause to be filed, with the Indenture Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act in respect of a security listed and registered on a national

securities exchange as may be prescribed from time to time in such rules and regulations; provided that if, pursuant to any publicly available interpretations of the Commission, the Trust or Principal Life would not be required to make such filings in connection with the Program under Section 314(a) of the Trust Indenture Act, then the Trust or Principal Life shall not be required to make such filings;

(ii) file, or cause to be filed, with the Indenture Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Trust, with the conditions and covenants of the Indenture as may be required from time to time by such rules and regulations; and

(iii) transmit, or cause to be transmitted, within thirty (30) days after the filing thereof with the Indenture Trustee, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, such summaries of any information, documents and reports required to be filed by the Trust pursuant to paragraphs (i) and (ii) of this Section 3.10(c) as may be required by rules and regulations prescribed from time to time by the Commission.

(d) The Trust shall comply with the provisions of Section 314(d) of the Trust Indenture Act.

SECTION 3.11. Performance of Obligations. The Trust may contract with other Persons for the performance of the Trust's obligations under the Indenture (other than the execution and delivery of Trust Requests, Trust Orders and Trust Certificates) and the performance of such obligations by such other Persons shall be deemed to be the performance thereof by the Trust, as applicable.

#### SECTION 3.12. Existence.

(a) The Trust will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises as a trust formed under the jurisdiction set forth in the Omnibus Instrument, as applicable, and, upon the advice of counsel, will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of the Indenture, the Notes or any portion of the Collateral. The Trust will, promptly after any amendment or modification of the Trust Agreement, send copies thereof to the Indenture Trustee and the Rating Agencies.

(b) The Trust will maintain books and records and bank accounts separate from those of any other Person and any other trust organized under the Program; will at all times hold itself out to the public as separate and distinct from any Affiliates and each other trust organized under the Program; and file or cause to be filed its own tax returns.

(c) The Trust shall maintain its assets and transactions separately from those of any Affiliates and any other trust organized under the Program, reflect such assets and transactions in financial statements separate and distinct from those of any Affiliates and any

other trust organized under the Program and evidence such assets and transactions by appropriate entries in books and records separate and distinct from those of any Affiliates (including any other trust organized under the Program).

SECTION 3.13. Reports; Financial Information; Notices of Defaults.

(a) The Trust shall promptly deliver to the Indenture Trustee copies of all reports, statements and information received by it pursuant to the Funding Agreement, the Guarantee or otherwise in respect of the Collateral.

(b) The Trust shall promptly inform the Indenture Trustee in writing of the occurrence of any Default or Event of Default which is continuing of which it has actual knowledge. Each notice given pursuant to this Section 3.13(b) shall be accompanied by a Trust Certificate setting forth details of the occurrence referred to therein and stating what action, if any, the Trust has taken or proposes to take with respect thereto.

(c) The Trust shall collect all forms (or, if applicable, copies of such forms), if any, from the Paying Agent or Registrar (or from such other persons as are relevant) that are required to exempt payments under the Notes, the Guarantee or the Funding Agreement from United States federal income tax withholding. In addition, the Trust shall execute and file such forms and take such actions for United States federal income tax purposes as shall be reasonable and necessary to ensure that payments of interest, principal, premium and Additional Amounts, if applicable, in respect of the Notes, the Funding Agreement or the Guarantee are not subject to United States federal withholding or backup withholding tax.

(d) In accordance with Section 312(a) of the Trust Indenture Act, the Trust shall furnish or cause to be furnished to the Indenture Trustee:

(i) semi-annually with respect to Notes not later than the 15th day of March and the 15th day of September of each year or upon such other dates as are set forth in or pursuant to a Trust Order or indenture supplemental to the Indenture a list, in each case in such form as the Indenture Trustee may reasonably require, of the names and addresses of Holders as of the applicable date, and

(ii) at such other times as the Indenture Trustee may request in writing, within thirty (30) days after the receipt by the Trust of any such request, a list of similar form and content as of a date not more than fifteen (15) days prior to the time such list is furnished,

provided, however, that so long as the Indenture Trustee is the Registrar no such list shall be required to be furnished.

(e) The Indenture Trustee shall comply with the obligations imposed upon it pursuant to Section 312 of the Trust Indenture Act.

Every Holder, by receiving and holding Notes, agrees with the Trust and the Indenture Trustee that neither the Trust, the Indenture Trustee, the Paying Agent or the Registrar shall be held accountable by reason of the disclosure of any such information as to the names and

addresses of the Holders in accordance with Section 312(c) of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Indenture Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

(f) (i) Within sixty (60) days after the 15th day of March of each year commencing with the first such date following the first issuance of Notes, if required by Section 313(a) of the Trust Indenture Act, the Indenture Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, a brief report dated as of such 15th day of March of such year with respect to any of the events specified in said Section 313(a) of the Trust Indenture Act which may have occurred since the later of the immediately preceding 15th day of March and the date of the Indenture.

(ii) The Indenture Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, the reports required by Section 313(b) of the Trust Indenture Act at the time specified therein.

(iii) Reports pursuant to this Section shall be transmitted in the manner and to the Persons required by Sections 313(c) and 313(d) of the Trust Indenture Act.

SECTION 3.14. Payment of Taxes and Other Claims. The Trust will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Trust or upon the income, profits or property of the Trust, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon the property of the Trust; provided, however, that the Trust shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings. The Trust shall comply with the requirements of all other applicable laws, the non-compliance with which would, individually or in the aggregate, materially and adversely affect the condition (financial or otherwise) of the Trust or which would impair in any material respect the ability of the Trust to perform its obligations under the Notes or the Indenture.

SECTION 3.15. Negative Covenants. So long as any Notes are Outstanding, the Trust will not take any of the following actions, except as otherwise permitted under the Indenture:

(a) sell, transfer, exchange, assign, lease, convey or otherwise dispose of any assets held by the Trust (owned as of the date of the Trust Agreement or thereafter acquired), including, without limitation, any portion of the Collateral, except as expressly permitted by the Indenture;

(b) incur or otherwise become liable, directly or indirectly, for any Indebtedness or Contingent Obligation except for the Notes issued pursuant to the Indenture and the transactions contemplated thereby;

(c) engage in any business or activity other than in connection with, or relating to, (i) the performance of the Trust Agreement and the execution, delivery and

performance of any documents (other than the Trust Agreement), including the Program Documents, relating to the Notes issued under the Indenture and the transactions contemplated thereby, and (ii) the issuance of the Notes pursuant to the Indenture;

(d) (i) permit the validity or effectiveness of the Indenture or any grant of security interest in or assignment for collateral purposes of the Collateral to be impaired, or permit a Lien created under the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations under any document or agreement assigned to the Indenture Trustee, except as may be expressly permitted by the Indenture, (ii) create, incur, assume or permit any Lien or other encumbrance (other than the Lien created by the Indenture) on any of its properties or assets owned or thereafter acquired, or any interest therein or the proceeds thereof, or (iii) permit a Lien created under the Indenture not to constitute a valid first priority perfected security interest in the Collateral;

(e) amend, modify or fail to comply with any material provision of the Trust Agreement except for any amendment or modification of the Trust Agreement expressly permitted thereunder;

(f) own any subsidiary or lend or advance any funds to, or make any investment in, any Person, except for an investment in the Funding Agreement or the investment of any funds held by the Indenture Trustee, the Paying Agent or the Trustee as provided in the Indenture or the Trust Agreement;

(g) directly or indirectly declare or make any distribution or other payment to, or redeem or otherwise acquire or retire for value the interest of, the Trust Beneficial Owner if any amount under the Notes is due and unpaid, or directly or indirectly redeem or otherwise acquire or retire for value any Indebtedness or Contingent Obligation other than the Notes;

(h) exercise any rights with respect to the Collateral except at the written direction of, or with the prior written approval of, the Indenture Trustee;

(i) cause or, to the fullest extent permitted by law, permit the sale or other transfer of all or a portion of the Trust Beneficial Interest, or cause or, to the fullest extent permitted by law, permit the creation, incurrence, assumption or existence of any Lien on, all or a portion of any of the Trust Beneficial Interest;

(j) become an "investment company", or come under the "control" of an "investment company," as such terms are defined in the Investment Company Act;

(k) enter into any transaction of merger or consolidation or liquidate or dissolve itself (or, to the fullest extent permitted by law, suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all the business or assets of, or any stock or other evidence of beneficial ownership of, any other Person;

(l) take any action that would cause it not to be treated as disregarded or treated as a grantor trust (assuming it were not disregarded) for United States federal income tax purposes;



(m) have any subsidiaries, employees or agents other than the Trustee and other persons necessary to conduct its activities and enter into transactions contemplated under the Program Documents;

(n) have an interest in any bank account other than (i) those accounts required under the Program Documents, and (ii) those accounts expressly permitted by the Indenture Trustee; provided that any such further accounts or the Trust's interest therein shall be charged or otherwise secured in favor of the Indenture Trustee;

(o) issue Notes under the Indenture unless (i) the Trust has purchased or will simultaneously purchase the Funding Agreement from Principal Life to secure such Notes, (ii) Principal Life has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect the granting of a security interest in, and the making of an assignment for collateral purposes of, the Funding Agreement by the Trust to the Indenture Trustee, (iii) PFG has issued the Guarantee to the Trust, which the Trust has granted a security interest and collaterally assigned to the Indenture Trustee on behalf of the Holders of Notes (and PFG has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect such security interest), and (iv) the Trust has taken such other steps as may be necessary to cause the grant of security interest in, and assignment for collateral purposes of, the Collateral to the Indenture Trustee to be perfected for purposes of the UCC or effective against the Trust's creditors and subsequent purchasers of the Collateral pursuant to insurance or other applicable law;

(p) permit any Affiliate, employee or officer of Principal Life or PFG or any agent under the Distribution Agreement to be a trustee of the Trust;

(q) commingle the assets of the Trust with assets of any Affiliates (including any other trust organized under the Program), or guarantee any obligation of any Affiliates (including any other trust organized under the Program); or

(r) maintain any joint account with any Person, become a party, whether as co-obligor or otherwise, to any agreement to which any Person is a party (other than in respect of the Program Documents), or become liable as a guarantor or otherwise with respect to any Indebtedness or contractual obligation of any Person.

SECTION 3.16. Non-Petition. Each of the Indenture Trustee, each Holder of a Note, each Agent and the Trustee covenants and agrees that, for a period of one year plus one day after payment in full of all amounts payable under or in respect of the Indenture and the Notes, it will not institute against, or join any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any federal or state bankruptcy or similar law. The immediately preceding sentence shall survive any termination of the Indenture.

Notwithstanding the foregoing, each of the Indenture Trustee and each Agent covenants and agrees that, it will not institute against, or join any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or

other proceedings under any federal or state bankruptcy or similar law, as a result of the failure to pay fees or expenses pursuant to Section 7.10 to any party entitled thereto.

Moreover, each of the Indenture Trustee, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar covenants and agrees that it will not cause an Event of Default as a result of the Trust's failure to pay any fees or expenses pursuant to Section 7.10 to any party entitled thereto.

SECTION 3.17. Title to the Collateral. The Trust covenants and agrees that the Trust owns or, prior to the issuance of the Notes will own, the Funding Agreement, the Guarantee and all of the rest of the Collateral, free and clear of any Liens other than the security interests or assignments for collateral purposes made pursuant to Article 4; and that the Trust is not and will not become a party to or otherwise be bound by any agreement, other than the Indenture, which restricts in any manner the rights of any present or future holder of any of the Collateral with respect thereto.

The Trust shall notify in writing the Indenture Trustee and any Rating Agencies as promptly as practicable upon becoming aware of any change in the law of the State of Iowa following the date of the Indenture with respect to the priority status of the Funding Agreement in a liquidation of, or other delinquency proceeding against, Principal Life.

SECTION 3.18. Withholding and Payment of Additional Amounts.

(a) All payments due in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is so required by law. Unless otherwise specified in the applicable Pricing Supplement, the Trust will not pay any Additional Amounts to Holders in respect of any such withholding or deduction and any such withholding or deduction will not give rise to a Default or an Event of Default or any independent right or obligation to redeem the Notes. Unless the Funding Agreement specifies that Principal Life will pay Additional Amounts to the Trust in the event that any amount due with respect to the Funding Agreement is subject to withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, the Trust will be deemed for all purposes of the Program Documents to have received cash in an amount equal to the amount of any such withholding or deduction, and each Holder will be deemed for all purposes of the Program Documents to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in the Notes as equitably determined by the Trust.

(b) Subject to the final sentence of this Section 3.18(b), and only to the extent specified in the applicable Pricing Supplement and supplemental indenture or Note, the Trust shall pay to a Holder of any Note who is not a "United States person" within the meaning of Section 7701(a)(30) of the Code, Additional Amounts to compensate for any withholding or

deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of such Note, by or on behalf of any governmental authority in the United States having the power to tax, so that the net amount received by the Holder under that Note, after giving effect to such withholding or deduction, will equal the amount that would have been received under such Note were no such deduction or withholding required; provided that the Trust shall not, unless otherwise specified in the applicable Pricing Supplement or a supplemental indenture, be required to make any payment of any Additional Amount for or on account of: (i) any tax, duty, levy, assessment or other governmental charge imposed which would have not been imposed but for (A) the existence of any present or former connection between the Holder or beneficial owner (as determined for United States federal income tax purposes) of the Note or the Funding Agreement (any such Holder or beneficial owner, the "Owner") and such governmental authority, including without limitation, being or having been a citizen or resident thereof, or being or having been present therein, incorporated therein, engaged in a trade or business therein or having (or having had) a permanent establishment or principal office therein, (B) such Owner being or having been a controlled foreign corporation within the meaning of Section 957(a) of the Code, related within the meaning of Section 864(d)(4) of the Code to Principal Life or a private foundation or other tax-exempt organization, (C) such Owner being or having been an actual or constructive owner of ten percent (10%) or more of the total combined voting power of all the outstanding stock of Principal Life, (D) such Owner being a bank for United States federal income tax purposes whose receipt of interest on the Note or Funding Agreement is described in Section 881(c)(3)(A) of the Code or (E) such Owner being subject to backup withholding as of the date of becoming an Owner; (ii) any tax, duty, levy, assessment or other governmental charge which would not have been imposed but for the presentation of the Note or other evidence of beneficial ownership thereof (where presentation is required) for payment on a date more than thirty (30) days after the date on which such payment becomes due and payable or the date on which payment is duly provided for whichever occurs later; except to the extent that the Owner would have been entitled to Additional Amounts had the Note been presented on the last day of such thirty (30) day period; (iii) any tax, duty, levy, assessment or other governmental charge which is imposed or withheld by reason of the failure of an Owner to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of an Owner (including, without limitation, failure to provide IRS Forms W-8BEN or W-8ECI), if compliance is required by statute, by regulation of the United States Treasury Department, judicial or administrative interpretation, other law or by an applicable income tax treaty to which the United States is a party as a condition to exemption from such tax, duty, levy, assessment or other governmental charge; (iv) any inheritance, gift, estate, personal property, sales, transfer or similar tax, duty, levy, assessment or similar governmental charge; (v) any tax, duty, levy, assessment or other governmental charge that is payable otherwise than by withholding from payments in respect of the Notes; (vi) any tax, duty, levy, assessment or other governmental charge that would not have been imposed or withheld but for the treatment of payments in respect of the Notes or the Funding Agreement as contingent interest described in Section 871(h)(4) of the Code; (vii) any tax, duty, levy, assessment or other governmental charge that would not have been imposed or withheld but for an election by the Owner the effect of which is to make payment in respect of the Notes subject to United States federal income tax; (viii) any tax, duty, levy, assessment or other governmental charge resulting from a European Union Directive; or (ix) any combination of items (i), (ii), (iii), (iv), (v), (vi), (vii) or (viii). The obligation to pay Additional Amounts under this Section

3.18

shall not apply unless Principal Life is obligated to pay additional amounts under the Funding Agreement (1) to compensate for any withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of the Funding Agreement by or on behalf of any governmental authority in the United States having the power to tax and (2) to reimburse the Trust for any Additional Amounts due to Holders.

(c) If the applicable Pricing Supplement indicates that the Trust will pay any Additional Amounts to Holders as described in Section 3.18(b) and any such Additional Amounts actually become due and payable the Trust shall deliver to the Indenture Trustee a Trust Certificate that indicates the amount of such Additional Amounts and the dates of the payment of such Additional Amounts. The Indenture Trustee may conclusively rely on such Trust Certificate in making the payment of such Additional Amounts.

(d) Whenever in the Indenture or in any Note there is mentioned, in any context, the payment of the principal of or any premium or interest on, or in respect of, any Note or the net proceeds received on the sale or exchange of any Note, such mention shall be deemed to include mention of the payment of Additional Amounts if so specified in the applicable Pricing Supplement. Further, express mention of the payment of Additional Amounts (if applicable) in any provision of the Indenture or in any Note shall not be construed as excluding Additional Amounts in those provisions of the Indenture or in such Note where such express mention is not made.

#### SECTION 3.19. Additional Representations and Warranties.

(a) The Trust hereby represents and warrants that:

(i) to the extent the creation of a security interest in the Funding Agreement is governed by the UCC, the Indenture will create a valid security interest (as defined in the UCC) in the Funding Agreement in favor of the Indenture Trustee for the benefit and security of the Holders, which security interest will be prior to all other Liens;

(ii) the Indenture will create a valid security interest (as defined in the UCC) in the Guarantee in favor of the Indenture Trustee for the benefit and security of the Holders, which security interest will be prior to all other Liens;

(iii) the Funding Agreement and the Guarantee will each constitute a "general intangible" or "instrument" within the meaning of the UCC;

(iv) subject to the grant of security interest, pledge and collateral assignment of the Trust's right, title and interest in the Funding Agreement, the Trust will be a party to and will be the person entitled to payment under the Funding Agreement on the dates specified therein free and clear of any Lien, claim or encumbrance of any Person, other than the Lien created under the Indenture or any Lien otherwise permitted under the Indenture;

(v) subject to the grant of security interest, pledge and collateral assignment of the Trust's right, title and interest in the Guarantee, the Trust will be the person entitled to any payment under the Guarantee free and clear of any Lien, claim or encumbrance of any Person, other than the Lien created under the Indenture or any Lien otherwise permitted under the Indenture;

(vi) to the extent the UCC applies, the Trust has caused or will have caused, within ten (10) days of the issuance of the Notes, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Funding Agreement and the Guarantee granted to the Indenture Trustee for the benefit and security of the Holders;

(vii) other than the security interests granted to the Indenture Trustee for the benefit and security of the Holders pursuant to the Indenture, the Trust will not pledge, assign, sell, grant a security interest in, or otherwise convey any interest in the Funding Agreement or the Guarantee;

(viii) the Trust will not authorize the filing of and is not aware of any financing statements against the Trust that include a description of collateral covering the Funding Agreement or the Guarantee other than any financing statement relating to the security interests granted to the Indenture Trustee for the benefit and security of the Holders;

(ix) the Trust is not aware of any judgment or tax lien filings against the Trust; and

(x) none of the instruments that constitute or evidence the Funding Agreement or Guarantee has any marks or notations indicating that it has been pledged, assigned or otherwise conveyed to any Person other than the Indenture Trustee for the benefit and security of the Holders.

(b) The foregoing representations and warranties will survive the execution and delivery of the Notes. No party will waive any of the foregoing representations and warranties. The Indenture Trustee and the Trust will maintain the perfection and priority of the security interest in the Funding Agreement and the Guarantee.

SECTION 3.20. Ancillary Documents. The Trust hereby expressly authorizes and directs the Indenture Trustee to execute and deliver each of the documents, instruments and agreements attached as Exhibits or otherwise expressly contemplated by the terms of the Indenture with respect to the Notes from time to time.

#### ARTICLE 4 GRANTING OF SECURITY INTEREST AND ASSIGNMENT FOR COLLATERAL PURPOSES

SECTION 4.01. Creation. To secure the full and punctual payment of the Secured Obligations in accordance with the terms thereof and to secure the performance of the Trust's

obligations under the Notes and the Indenture, the Trust, with respect to the Funding Agreement and the Guarantee, hereby assigns and pledges to and with the Indenture Trustee for the ratable benefit of each Holder and, with respect to all of the Collateral, grants to the Indenture Trustee for the ratable benefit of each Holder security interests in the Collateral, and all of its rights and privileges with respect to the Collateral, and all income and profits thereon, and all interest, dividends and other payments and distributions with respect thereto, and all Proceeds of the foregoing. Contemporaneously with the issuance of the Notes, the Trust will deliver the Funding Agreement and the Guarantee to the Indenture Trustee or its agent in pledge under the Indenture and make such filings, cause Principal Life as the issuer of the Funding Agreement, and PFG as issuer of the Guarantee, to register and acknowledge the Indenture Trustee or its agent or the Holders as having the rights of an assignee for collateral purposes of the Funding Agreement and the Guarantee, respectively, and take such other action as may be necessary to cause the Indenture Trustee for the ratable benefit of each Holder to have a perfected security interest in or be the recipient of a valid assignment for collateral purposes of the Funding Agreement and the Guarantee, respectively, and the rest of the Collateral that is effective against the Trust's creditors and subsequent purchasers thereof.

#### SECTION 4.02. Scope.

(a) The security interest or assignment for collateral purposes granted or made pursuant to Section 4.01 is granted or made in trust to secure the full and punctual payment of the Secured Obligations equally and ratably among the Holders, without prejudice, priority or distinction, except as expressly provided in the Indenture, in the following order of priority:

first, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on the Notes; and

second, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

(b) The Trust does hereby constitute and irrevocably appoint the Indenture Trustee the true and lawful attorney of the Trust, with full power (in the name of the Trust or otherwise), upon the occurrence and during the continuance of an Event of Default, to exercise all rights of the Trust with respect to the Collateral and to ask, require, demand, receive, settle, compromise, compound and give acquittance for any and all monies and claims for monies due and to become due under or arising out of any of the Collateral, to endorse any checks or other instruments or orders in connection therewith and to file any claims or take any action or institute any proceedings that the Indenture Trustee may deem to be necessary or advisable in the circumstances. The power of attorney granted pursuant to the Indenture and all authority conferred by the Indenture are granted and conferred solely to protect the Indenture Trustee's interest in the Collateral held for the benefit and security of the Holders and shall not impose any duty upon the Indenture Trustee to exercise any power. This power of attorney shall be irrevocable as one coupled with an interest prior to the payment in full of all the Notes.

(c) The Indenture shall constitute a security agreement and an agreement to assign the Collateral for collateral purposes under the laws of the State of New York applicable to agreements made and to be performed therein. Upon the occurrence of any Event of Default with respect to the Notes, and in addition to any other rights available under the Indenture, the Funding Agreement and the Guarantee or otherwise available at law or in equity, the Indenture Trustee shall have all rights and remedies of a secured party or an assignee for collateral purposes on default under the laws of the State of New York and other applicable law to enforce the assignments and security interests contained in the Indenture and, in addition, shall have the right, subject to compliance with any mandatory requirements of applicable law, to sell or apply the Funding Agreement or Guarantee, exercise its rights under the Guarantee and any other rights and other interests assigned or pledged by the Indenture in accordance with the terms of the Indenture at public or private sale. All amounts received under the Indenture shall be applied first to all costs and expenses incurred by the Indenture Trustee in connection with such collection and enforcement and thereafter as provided in the Indenture.

(d) It is expressly agreed that anything in the Indenture or therein contained to the contrary notwithstanding, the Trust shall remain liable under the Funding Agreement or the Guarantee to perform all the obligations of it thereunder, all in accordance with and pursuant to the terms and provisions thereof, and the Indenture Trustee shall not have any obligations or liabilities with respect to the Funding Agreement or the Guarantee by reason of or arising out of the Indenture, nor shall the Indenture Trustee be required or obligated in any manner to perform or fulfill any obligations of the Trust under or pursuant to the Funding Agreement or the Guarantee or, other than as provided in the Indenture, to make any payment, to make any inquiry as to the nature or sufficiency of any payment received by it, or, prior to the occurrence and continuance of an Event of Default, to present or file any claim, or to take any action to collect or enforce the payment of any amounts that may have been assigned to it or to which it may be entitled at any time or times.

(e) The Trust hereby directs and instructs the Indenture Trustee to enter into a custodial arrangement with Bankers Trust Company, N.A., a national banking association, to hold the Funding Agreement and Guarantee in safe custody for the benefit of the Indenture Trustee within the State of Iowa.

(f) The Indenture Trustee acknowledges the granting of such security interests and the making of such assignments for collateral purposes, accepts the terms under the Indenture in accordance with the provisions of the Indenture and agrees to perform its duties in the Indenture subject to and with the benefit of the provisions of the Indenture, to the end that the interests of the Holders may be adequately and effectively protected.

SECTION 4.03. Termination of Security Interest. Upon the payment in full of all Secured Obligations relating to the Notes, the security interest shall terminate and all rights to the Collateral shall revert to the Trust. Upon termination of the security interest, the Indenture Trustee will execute and deliver to the Trust such documents as the Trust shall reasonably request to evidence the termination of such security interest.

ARTICLE 5  
SATISFACTION AND DISCHARGE; SUBROGATION

SECTION 5.01. Satisfaction and Discharge of Indenture. The Indenture shall cease to be of further effect with respect to the Notes (except as to any surviving rights of registration of transfer or exchange of Notes expressly provided for in the Indenture) and the Indenture Trustee, on written demand of the Trust, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture with respect to the Notes, when

(a) either:

(i) all Notes theretofore authenticated and delivered (other than Notes which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.08) have been delivered to the Indenture Trustee for cancellation; or

(ii) all Notes

(A) have become due and payable,

(B) will become due and payable at their Stated Maturity Date within one year, or

(C) are to be called for redemption within one year under arrangements satisfactory to the Indenture Trustee for the giving of notice of redemption by the Indenture Trustee in the name, and at the expense, of the Trust,

and the Trust, in the case of (A), (B) or (C) above, has deposited or caused to be deposited with the Indenture Trustee as trust funds in trust for such purpose, an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Indenture Trustee for cancellation, for principal of, premium, if any, or any interest on, the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity Date, as the case may be;

(b) the Trust has paid or caused to be paid in full all other sums payable under the Indenture by the Trust with respect to the Secured Obligations; and

(c) the Trust has delivered to the Indenture Trustee a Trust Certificate and an Opinion of Counsel each stating that all conditions precedent in the Indenture providing for the satisfaction and discharge of the Indenture with respect to the Notes have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture with respect to the Notes, the obligations of the Indenture Trustee under Section 5.02 shall survive.

SECTION 5.02. Application of Trust Money. All money deposited with the Indenture Trustee pursuant to the Indenture shall be held in trust in the Collection Account and applied by



it, in accordance with the provisions of the Notes and the Indenture, to the payment through any Paying Agent, to the Persons entitled thereto, of the principal, premium, if any, interest and Additional Amounts, if any, for whose payment such money has been deposited with or received by the Indenture Trustee.

If no Event of Default with respect to the Notes exists, the following priority of payments shall apply:

first, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on the Notes; and

second, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

## ARTICLE 6 DEFAULTS AND REMEDIES

### SECTION 6.01. Events of Default.

"EVENT OF DEFAULT" means any one of the following events with respect to the Notes (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) failure to pay the principal (other than any installment payment), when due and payable, of any Note and the continuance of such failure for a period of one (1) Business Day;

(b) failure to pay any interest, premium (if applicable), installment payments (if applicable) or any other amounts, when due and payable, on any Note and a continuance of such failure for a period of seven (7) Business Days;

(c) an "Event of Default" (as defined in the Funding Agreement) by Principal Life under the Funding Agreement securing the Notes;

(d) failure to observe or perform in any material respect any one or more of the other covenants in the Indenture (other than a covenant or default or breach of which is specifically set forth in Section 6.01(a), (b) and, if applicable (h)) or the Notes, and continuance of such failure for a period of sixty (60) days after the date on which there shall have been given written notice by registered or certified mail, return receipt requested, specifying such failure, thereof to the Trust by the Indenture Trustee or to the Trust and the Indenture Trustee by Holders of Notes representing at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Notes, which written notice shall be delivered by registered or certified mail, return

receipt requested, and shall specify such failure and require such failure to be remedied and which notice shall state that it is a "NOTICE OF DEFAULT" under the Indenture;

(e) the Indenture for any reason shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared null and void, or the Indenture Trustee fails to have or maintain a validly created and perfected security interest subject to no prior Liens or security interests in the Collateral and proceeds thereof except as expressly permitted by the Indenture; or any Person shall successfully claim as finally determined by a court of competent jurisdiction that any of the Liens granted to the Indenture Trustee with respect to any of the Collateral are void or that the enforcement thereof or any other recourse by the Indenture Trustee against any of the Collateral is materially limited because of any preference, fraudulent transfer, conveyance or similar law;

(f) either (i) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Trust or the Collateral in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect in the applicable jurisdiction, which decree or order is not stayed; or any other similar relief shall be granted under any applicable law; or (ii) an involuntary case shall be commenced against the Trust or the Collateral under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Trust or the Collateral, or over all or a substantial part of its property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the Trust or the Collateral for all or a substantial part of its property; or a court having jurisdiction in the premises shall enter a decree or order declaring the dissolution of the Trust; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of the Trust and any such event described in this clause (ii) shall continue for sixty (60) days unless dismissed, bonded or discharged;

(g) either (i) the Trust shall have an order for relief entered with respect to it or shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Trust shall make any assignment for the benefit of creditors; or (ii) the Trust shall fail or be unable, or the Trust admits in writing its inability, to pay its debts as such debts become due; or the trustee of the Trust shall adopt any resolution or otherwise authorize any action to approve or for the purpose of effecting any of the actions referred to in this paragraph (g); or

(h) any other Event of Default provided in (i) the applicable Pricing Supplement and (ii) the Notes or any supplemental indenture.

Notwithstanding anything contained herein to the contrary, any event of default or other breach by PFG under the Guarantee will not be an Event of Default hereunder with respect to the Notes.

SECTION 6.02. Acceleration of Maturity Date; Rescission and Annulment. If an Event of Default specified in any of Sections 6.01(a), (b), (c), (f) or (g) occurs and is continuing, the principal of and all accrued and unpaid interest and any other amounts payable on the Notes or if such Notes are non-interest bearing, the amortized face amount of such Notes or other redemption amount as may be specified in the Pricing Supplement, shall automatically be and become due and payable immediately, without any declaration or other act whatsoever on the part of the Trust, the Indenture Trustee or any Holder. If any Event of Default other than those specified in Sections 6.01(a), (b), (c), (f) or (g) occurs and is continuing, then in every such case the Indenture Trustee or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Outstanding Notes, by a notice in writing to the Trust (and to the Indenture Trustee if given by the Holders of the Notes), may (but are not required to) declare the sum of (a) the principal amount of all the Outstanding Notes and (b) any other amounts, including accrued and unpaid interest, payable to the Holders to the extent such amounts are permitted by law to be paid, to be due and payable immediately, and upon any such declaration such amount shall become due and payable on the date the written declaration is received by the Trust; provided, however, that with respect to any Note issued with original issue discount the amount of principal due and payable for such Note will be the amount determined as set forth in the Pricing Supplement or, if not so set forth, by multiplying (i) the then outstanding aggregate principal amount of such Note by (ii) the sum of (A) the original issue price of the Note (expressed as a percentage of the then outstanding aggregate principal amount of such Note) plus (B) the original issue discount (expressed as a percentage) amortized from the original issue date of such Note to the date of declaration of acceleration of maturity of such Note (calculated using the interest method in accordance with generally accepted accounting principles in effect on the date of determination).

At any time after such a declaration of acceleration of maturity of the Notes has been made pursuant to the second sentence of this Section 6.02 and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as provided in this Article, the Holders of Notes representing at least sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of the Outstanding Notes, by written notice to the Trust and the Indenture Trustee, may rescind and annul such declaration and its consequences if

(a) the Trust has paid or deposited with the Indenture Trustee a sum sufficient to pay:

(i) all overdue installments of interest and Additional Amounts, if applicable, on all Notes,

(ii) the principal and premium, if any, of any Notes which have become due otherwise than by such declaration of acceleration and interest thereon with respect thereto at the rate borne by the Notes, and

(iii) all sums paid or advanced by the Indenture Trustee under the Indenture; and

(b) all Events of Default, other than the nonpayment of the principal of or interest on the Notes which have become due solely as a result of such acceleration, have been cured or waived as provided in Section 6.13.

No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereon.

SECTION 6.03. Collection of Indebtedness and Suits for Enforcement. The Trust covenants that if:

(a) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable (after the expiration of any applicable cure period), or

(b) default is made in the payment of the principal or premium, if any, of any Note when such principal or premium, if any, becomes due and payable,

the Trust will upon demand of the Indenture Trustee (which the Indenture Trustee may make, but is not required to make) pay to the Indenture Trustee, for the benefit of all the Holders of the Notes, the whole amount then due and payable on the Notes (together, as applicable, with interest upon the overdue principal and any premium and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest at the rate borne by the Notes or, if the Notes are non-interest bearing, the rate for such interest set forth in the Notes or the Indenture, if applicable) and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel.

If the Trust fails to pay such amounts it is required to pay the Indenture Trustee pursuant to the preceding paragraph, then forthwith upon the demand of the Indenture Trustee, in its own name and as trustee of an express trust, the Indenture Trustee may (but is not required to) institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Trust or any other obligor upon any of the Notes and collect the monies adjudged or decreed to be payable in the manner provided by law out of the property of the Trust or any other obligor upon the Notes, including the Collateral, wherever situated.

If an Event of Default with respect to the Notes occurs and is continuing, the Indenture Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes by such appropriate judicial proceedings as the Indenture Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Indenture or in aid of the exercise of any power granted in the Indenture, or to enforce any other proper remedy.

SECTION 6.04. Indenture Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, composition or other judicial proceeding relative to the Trust or any other obligor upon the Notes or the property held in the Trust or of such other obligor or their creditors, the Indenture Trustee (irrespective of whether the Notes shall then be due and payable as therein expressed or by

declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand on the Trust for the payment of any overdue principal, premium or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal of, and any premium and interest owing and unpaid in respect of, the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel) and of the Holders allowed in such proceeding; and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same, and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Indenture Trustee and, in the event that the Indenture Trustee shall consent, to make such payments directly to the Holders, and to pay to the Indenture Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, and any other amounts due to the Indenture Trustee under Section 7.10.

Nothing contained in the Indenture shall be deemed to authorize the Indenture Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting any of the Notes or the rights of any Holder thereof, or to authorize the Indenture Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.05. Indenture Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under the Indenture or any of the Notes may be prosecuted and enforced by the Indenture Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Indenture Trustee in accordance with the terms of the Indenture shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, be for the ratable benefit of the Holders of Notes in respect of which such judgment has been recovered.

SECTION 6.06. Application of Money Collected. Notwithstanding anything in the Indenture to the contrary, any money collected by the Indenture Trustee following an Event of Default and during the continuance thereof pursuant to Article 6 or otherwise under the Indenture or, any supplements to the Indenture, and any moneys that may then be held or thereafter received by the Indenture Trustee as security with respect to the Notes shall be held in the Collection Account and be applied in the following order, at the date or dates fixed by the Indenture Trustee and, in case of the distribution on account of principal or interest, upon presentation of the Notes, or both, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

first, to the payment of the reasonable and customary expenses and counsel fees incurred by the Indenture Trustee and any other amounts due and

unpaid to the Indenture Trustee by the Trust, in an aggregate amount of no more than \$250,000 for all notes issued under the Program, to the extent not paid pursuant to the applicable Expense and Indemnity Agreement;

second, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which, or for the benefit of which, such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on the Notes; and

third, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

Except as expressly set forth in the Indenture, none of the Indenture Trustee, Paying Agent, Registrar or any other Agent or any of their successors, employees, officers, directors, affiliates or agents shall have any claim or rights of any nature in or to the Collateral, whether as a result of set-off, banker's lien or otherwise, and the Indenture Trustee hereby waives, and the Paying Agent and Registrar appointed under the Indenture shall be deemed to have waived, by its acceptance of the duties under the Indenture, on behalf of itself and each such other Person, any such claim or rights in or to the Collateral.

SECTION 6.07. Limitation on Suits. Except as otherwise provided in Section 6.08, no Holder shall have any right to institute any proceedings, judicial or otherwise, with respect to the Indenture or any agreement or instrument included in the Collateral for the Notes or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder has previously given written notice to the Indenture Trustee of a continuing Event of Default with respect to the Notes;

(b) the Holder or Holders of Notes representing not less than twenty-five percent (25%) of the aggregate principal amount of the Outstanding Notes shall have made written request to the Indenture Trustee to institute proceedings in respect of such Event of Default in its own name as Indenture Trustee under the Indenture;

(c) such Holder or Holders have offered to the Indenture Trustee reasonable indemnity or security satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Indenture Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Indenture Trustee during such sixty (60) day period by the Holder or Holders of Notes representing at least 66 2/3% in aggregate principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect,

disturb or prejudice the rights of any other Holder of any Note or to obtain or to seek to obtain priority or preference over any other Holder of any Note or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Holders of the Notes.

**SECTION 6.08. Unconditional Rights of Holders to Receive Payments.**

Notwithstanding any other provision in the Indenture, each Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of, any interest on, and premium, if any, on such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

**SECTION 6.09. Restoration of Rights and Remedies.** If the Indenture Trustee or any Holder has instituted any proceeding to enforce any right or remedy under the Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Indenture Trustee or to such Holder, then and in every such case the Trust, the Indenture Trustee and each such Holder shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions under the Indenture, and thereafter all rights and remedies of the Indenture Trustee and each such Holder shall continue as though no such proceeding had been instituted.

**SECTION 6.10. Rights and Remedies Cumulative.** Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in Section 2.08, no right or remedy in the Indenture conferred upon or reserved to the Indenture Trustee or to each and every Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy under the Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**SECTION 6.11. Delay or Omission Not Waiver.** No delay or omission of the Indenture Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such right or remedy accruing upon any Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Indenture Trustee or to any Holder may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by such Holder, as the case may be.

**SECTION 6.12. Control by Holders.** Holders, representing a majority of the aggregate principal amount of the Outstanding Notes, who provide the Indenture Trustee with indemnification satisfactory to the Indenture Trustee, shall have the right to direct the time, method and place of conducting any proceedings for exercising any remedy available to the Indenture Trustee or exercising any trust or power conferred on the Indenture Trustee with respect to the Notes, including with respect to the Collateral; provided, however, that (a) such direction shall not be in conflict with any rule of law or with the Indenture and (b) the Indenture

Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction.

SECTION 6.13. Waiver of Past Defaults. Notwithstanding anything in the Indenture to the contrary, only Holders representing a majority of the aggregate principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past Default with respect thereto and its consequences, except a Default:

(a) in the payment of any principal of, any interest on, or premium, if any, on any Note, or

(b) in respect of a covenant or provision of the Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Note.

Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of the Indenture with respect to the Notes; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 6.14. Undertaking for Costs. All parties to the Indenture agree, and each Holder, by acceptance of a Note, shall be deemed to have agreed that, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, any court may in its discretion require the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Indenture Trustee or any Agent, to any suit instituted by any Holder, or group of Holders, holding in the aggregate Notes representing more than ten percent (10%) of the aggregate principal amount of the Outstanding Notes, or to any suit instituted by any Holder for the enforcement of the payment of any installment of interest on any Note on or after the Stated Maturity Date thereof expressed in such Note or for the enforcement of the payment of any principal of such Note at the Stated Maturity Date therefor.

SECTION 6.15. Waiver of Stay or Extension Laws. The Trust covenants that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any law wherever enacted, now or at any time hereafter in force, providing for any appraisalment, valuation, stay, extension or redemption, which may affect the covenants in, or the performance of, the Indenture; and the Trust hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power granted in the Indenture to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.



ARTICLE 7  
THE INDENTURE TRUSTEE AND OTHER AGENTS

SECTION 7.01. Duties of Indenture Trustee.

(a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default, the duties and liabilities of the Indenture Trustee are to perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations of the Indenture Trustee shall be read into the Indenture.

(c) No provision of the Indenture shall be construed to relieve the Indenture Trustee or any Agent from liability for its own negligent action, its own negligent failure to act, or its own bad faith or willful misconduct, except that:

(i) this subsection does not limit the effect of subsection (b) of this Section 7.01;

(ii) each of the Indenture Trustee and each Agent may in good faith conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to it and conforming to the requirements of the Indenture unless a Responsible Officer of the Indenture Trustee or such Agent, respectively, has actual knowledge that such statements or opinions are false; provided that the Indenture Trustee or Agent, as the case may be, must examine such certificates and opinions to determine whether they conform to the requirements of the Indenture;

(iii) each of the Indenture Trustee and each Agent shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Indenture Trustee or Agent, as the case may be, was negligent in ascertaining the pertinent facts;

(iv) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with the direction of Holders representing a majority of the aggregate principal amount of the Outstanding Notes or pursuant to Section 6.07 for actions or omissions relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred upon the Indenture Trustee, under the Indenture with respect to the Notes; and

(v) no provision of the Indenture shall require the Indenture Trustee or any Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for

believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 7.01.

(e) The Indenture Trustee shall promptly upon its receipt thereof deliver to each Rating Agency copies of each of the following:

(i) any notice of any Event of Default by any party under the Funding Agreement delivered by the Trust to the Indenture Trustee pursuant to paragraph (b) of Section 3.13;

(ii) any amendment or modification of the Trust Agreement delivered by the Trust to the Indenture Trustee pursuant to paragraph (a) of Section 3.12;

(iii) any notice of any Default or Event of Default, together with any relevant Trust Certificate relating thereto, delivered by the Trust to the Indenture Trustee pursuant to paragraph (b) of Section 3.13;

(iv) any supplemental indenture referred to in Section 8.01 or 8.02;

(v) any other information reasonably requested by any Rating Agency;

(vi) any notice of change in the identity of the Trust;

(vii) any notice of change in the identity of the Indenture Trustee;

(viii) any notice of adverse change in the priority status of the Funding Agreement as a matter of the laws of the State of Iowa; and

(ix) any notice of redemption delivered to the Indenture Trustee under Section 2.04.

(f) The Indenture Trustee shall, on behalf of the Trust, and to the extent that the relevant information shall be reasonably available to it, submit such reports or information as may be required from time to time in relation to the issue of the Notes by applicable law, regulations and guidelines by governmental regulatory authorities as may be subsequently requested by the Trust and agreed to in writing between the Trust and the Indenture Trustee.

SECTION 7.02. No Liability to Invest. None of the Agents shall be under any liability for interest on, or have any responsibility to invest, any monies received by it pursuant to any of the provisions of the Indenture or the Notes.

SECTION 7.03. Performance Upon Default. None of the Agents shall have any duty or responsibility in case of any default by the Trust in the performance of its obligations (including, without limiting the generality of the foregoing, any duty or responsibility to accelerate all or any of the Notes or to initiate or to attempt to initiate any proceedings at law or otherwise or to make any demand for the payment thereof upon the Trust).

SECTION 7.04. No Assumption by Paying Agent, Transfer Agent, Calculation Agent or Registrar. In acting under the Indenture and in connection with the Notes, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar shall act solely as agents of the Trust and will not thereby assume any obligations towards, or relationship of agency or trust for, any of the Holders.

SECTION 7.05. Notice of Default. Within ninety (90) days after a Responsible Officer of the Indenture Trustee becomes aware of the occurrence of any Default or Event of Default which is continuing, the Indenture Trustee shall transmit to the Trustee, PFG and Principal Life and all Holders of Notes notice of each such Default or Event of Default known to the Indenture Trustee, unless such Default or Event of Default shall have been cured or waived; provided, however, that, except in the case of a Default of the kind described in Section 6.01(a), (b), (c), (f) or (g) the Indenture Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Indenture Trustee in good faith determine that the withholding of such notice is in the interests of the Holders.

SECTION 7.06. Rights of Indenture Trustee. Subject to the provisions of Section 7.01(c):

(a) The Indenture Trustee may conclusively rely on any document believed by it in good faith to be genuine and to have been signed or presented by the proper Person. The Indenture Trustee need not investigate any fact or matter stated in the document.

(b) Before the Indenture Trustee acts or refrains from acting, including in connection with the issuance of the Notes pursuant to Section 2.02, it may require a Trust Certificate or an Opinion of Counsel (or may consult with financial or other advisors or consultants appointed with due care). The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on any Trust Order, Trust Request, Trust Certificate, Opinion of Counsel or advice from financial or other advisors or consultants appointed with due care.

(c) The Indenture Trustee may act through agents or attorneys and shall not be responsible for monitoring or supervising the actions of, or for the misconduct or negligence of, any agent or attorney appointed with due care.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers.

(e) (i) The Indenture Trustee may employ or retain such counsel, accountants, appraisers, agents or other experts or advisers as it may reasonably require for the

purpose of determining and discharging its rights and duties under the Indenture and shall not be responsible for misconduct on the part of any such person appointed with due care.

(ii) The Indenture Trustee may conclusively act and rely and shall be protected in acting and relying in good faith on the opinion or advice of or information obtained from any counsel, accountant, appraiser, agents or other expert or adviser, whether retained or employed by the Trust or by the Indenture Trustee, in relation to any matter arising in the administration of the trusts of the Indenture.

(f) The Indenture Trustee may consult with counsel of its selection and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it under the Indenture in good faith and in reliance thereon.

(g) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders pursuant to the Indenture, unless such Holders shall have offered to the Indenture Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(h) The Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Indenture Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Indenture Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Trust, personally or by agent or attorney, with any reasonable costs related thereto to be paid by Principal Life pursuant to the applicable Expense and Indemnity Agreement, and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(i) The Indenture Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Indenture Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by a Responsible Officer of the Indenture Trustee at the Corporate Trust Office of the Indenture Trustee, and such notice references the Notes and the Indenture and states that a Default or Event of Default has occurred.

(j) Permissive powers granted to the Indenture Trustee under the Indenture shall not be construed to be mandatory duties on its part.

(k) The rights and protections afforded to the Indenture Trustee pursuant to this Article 7 shall also be afforded to the Paying Agent, Calculation Agent, Registrar or Transfer Agent, or any successor or agent thereof.

(l) The Indenture Trustee shall have no liability for the actions or omissions of the Paying Agent, Registrar, Calculation Agent or Transfer Agent, provided that such action

or omission is not caused by the Indenture Trustee's own negligence, bad faith or willful misconduct.

(m) The Indenture Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through delegates, agents, attorneys, custodians, or nominees, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part, or the supervision, of any agent, attorney, custodian, or nominee appointed with due care under the Indenture except as otherwise agreed in writing with the Trust.

(n) The Indenture Trustee may request that the Trust deliver an officer's certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to the Indenture, which officer's certificate may be signed by any person authorized to sign an officer's certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.07. Not Responsible for Recitals or Issuance of Notes. The recitals contained in the Indenture and in the Notes, except the certificates of authentication on the Notes, shall be taken as the statements of the Trust and neither the Indenture Trustee nor any Agent assumes any responsibility for their correctness. Neither the Indenture Trustee nor any Agent makes any representations with respect to any Collateral or as to the validity, enforceability or sufficiency of the Indenture or of the Notes or of any security interest created under the Indenture. Neither the Indenture Trustee nor any Agent shall be accountable for the use or application by the Trust of the Notes or the proceeds thereof or any money paid to the Trust or upon Trust Order pursuant to the provisions of the Indenture.

SECTION 7.08. Indenture Trustee May Hold Notes. The Indenture Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Section 7.11 and Section 311(a) of the Trust Indenture Act, may otherwise deal with the Trust with the same rights it would have if it were not Indenture Trustee.

SECTION 7.09. Money Held in Trust. Money held by the Indenture Trustee in trust under the Indenture need not be segregated from other funds except to the extent required by the Indenture or by law. The Indenture Trustee shall be under no liability for interest on any money received by it under the Indenture and shall not invest such money, unless otherwise agreed to in writing and permitted by law.

SECTION 7.10. Compensation and Reimbursement. The Indenture Trustee and the Agents will be entitled to payment of fees, reimbursement for, and indemnification with respect to, costs and expenses for services rendered under the Indenture to the extent provided in the applicable Expense and Indemnity Agreement and, with respect to only the Indenture Trustee, Section 6.06. Except as provided in Section 6.06 with respect to the Indenture Trustee, none of the Indenture Trustee, Paying Agent, Registrar or Transfer Agent shall be entitled to seek any payment from the Trust with respect to its services under the Indenture.

SECTION 7.11. Eligibility. The Trust agrees, for the benefit of the Holders, that there shall at all times be an Indenture Trustee under the Indenture which shall be a corporation or

national banking association organized and doing business under the laws of the United States, any state thereof or the District of Columbia, authorized under such law to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 subject to supervision or examination by federal or state authority and having a credit rating of BBB- or better by Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies or a credit rating of Baa3 or better by Moody's Investors Service, Inc. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 7.11, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition as published. If at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in this Article.

In addition, the Indenture Trustee, each successor Indenture Trustee and each Person appointed to act as co-trustee pursuant to Section 7.15 must be a "United States person" within the meaning of Section 7701(a)(30) of the Code.

#### SECTION 7.12. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Indenture Trustee and no appointment of a successor Indenture Trustee pursuant to this Section shall become effective until the acceptance of appointment by the successor Indenture Trustee under Section 7.13.

(b) The Indenture Trustee may resign at any time by giving not less than sixty (60) days' prior written notice thereof to the Trust and the Holders of the Notes. If an instrument of acceptance by a successor Indenture Trustee shall not have been delivered to the Indenture Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Indenture Trustee may petition any court of competent jurisdiction at the expense of the Trust for the appointment of a successor Indenture Trustee and any and all amounts then due and owing to the retiring Indenture Trustee shall be paid in full.

(c) The Indenture Trustee may be removed at any time by an Act of Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes, delivered to the Indenture Trustee and to the Trust. If an instrument of acceptance by a successor Indenture Trustee shall not have been delivered to the Indenture Trustee within thirty (30) days after the giving of such notice of removal, the Indenture Trustee being removed may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Indenture Trustee with respect to the Notes.

(d) If at any time (i) the Indenture Trustee shall cease to be eligible under Section 7.11 and shall fail to resign after written request by the Trust or any Holder (who has been a bona fide Holder of a Note for at least six months), (ii) shall become incapable of acting or shall be adjudged as bankrupt or insolvent, or a receiver or liquidator of the Indenture Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Indenture Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation or (iii) the Indenture Trustee shall fail to comply with the obligations imposed upon it under Section 310(b) of the Trust Indenture Act with respect to the Notes after written request

therefor by the Trust or any Holder who has been a bona fide Holder of a Note for at least six months, then, (x) the Trust (except during the existence of an Event of Default) by a Trust Order may remove the Indenture Trustee, or (y) subject to Section 6.14, any Holder who has been a bona fide Holder for at least six months may, on behalf of himself, herself or itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

(e) If the Indenture Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Indenture Trustee for any reason, the Trust, by a Trust Order, shall promptly appoint a successor Indenture Trustee and shall comply with the applicable requirements of Section 7.13. If, within one year after such resignation, removal or incapability or the occurrence of such vacancy, a successor Indenture Trustee shall be appointed by Act of Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes delivered to the Trust and the retiring Indenture Trustee, the successor Trustee so appointed shall, upon its acceptance of such appointment in accordance with the applicable requirements of Section 7.13, become the successor Indenture Trustee and supersede the successor Indenture Trustee appointed by the Trust. If no successor Indenture Trustee shall have been so appointed by the Trust or Holders and shall have accepted appointment in the manner provided in the Indenture, any Holder who has been a Holder for at least six months may (subject to Section 6.14), on behalf of himself, herself or itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(f) The Trust shall give notice of each resignation and each removal of the Indenture Trustee and each appointment of a successor Indenture Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of the Notes, if any, as their names and addresses appear in the Register. Each notice shall include the name of the successor Indenture Trustee and the address of its Corporate Trust Office.

(g) Any successor Indenture Trustee shall satisfy all applicable requirements under the Indenture.

#### SECTION 7.13. Acceptance of Appointment by Successor.

(a) Every successor Indenture Trustee appointed under the Indenture shall execute, acknowledge and deliver to the Trust and the retiring Indenture Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Indenture Trustee shall become effective and such successor Indenture Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Indenture Trustee. Notwithstanding the foregoing, on request of the Trust or the successor Indenture Trustee, such retiring Indenture Trustee shall, upon payment of all amounts owed to it, execute and deliver an instrument transferring to such successor Indenture Trustee all the rights, powers and trusts of the retiring Indenture Trustee, and shall duly assign, transfer and deliver to such successor Indenture Trustee all property and money held by such retiring Indenture Trustee under the Indenture.

(b) Upon request of any such successor Indenture Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such

successor Indenture Trustee all such rights, powers and trusts referred to in this Section, as the case may be.

(c) No successor Indenture Trustee shall accept its appointment unless at the time of such acceptance such successor Indenture Trustee shall be qualified and eligible under this Article.

SECTION 7.14. Merger, Conversion, Consolidation or Succession to Business of Indenture Trustee. Any corporation or national banking association into which the Indenture Trustee may be merged or converted or with which it may be consolidated, or any corporation or national banking association resulting from any merger, conversion or consolidation to which the Indenture Trustee shall be a party, or any corporation or national banking association succeeding to all or substantially all of the corporate trust business of the Indenture Trustee, shall be the successor of the Indenture Trustee under the Indenture, without the execution or filing of any paper or any further act on the part of any of the parties to the Indenture; provided, however, that such corporation or national banking association shall be otherwise qualified and eligible under this Article. In case any Notes have been authenticated, but not delivered, by the Indenture Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Indenture Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Indenture Trustee had authenticated such Notes.

SECTION 7.15. Co-trustees.

(a) At any time or times, for the purpose of meeting the legal or regulatory requirements of any jurisdiction in which any portion of any Collateral may at the time be located, the Trust and the Indenture Trustee shall have power to appoint, and, upon the written request of the Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes, the Trust shall for such purpose join with the Indenture Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint one or more Persons approved by the Indenture Trustee to act as co-trustee, jointly with the Indenture Trustee, of all or any part of the Collateral, with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Trust does not join in such appointment within fifteen (15) days after the receipt by it of a request so to do, or in case an Event of Default has occurred and is continuing, the Indenture Trustee alone shall have power to make such appointment.

(b) Should any written instrument from the Trust be required by any co-trustee so appointed for more fully confirming to such co-trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Trust.

(c) Every co-trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms:



(i) the Notes shall be authenticated and delivered and all rights, powers, duties and obligations under the Indenture in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Indenture Trustee under the Indenture, shall be exercised solely by the Indenture Trustee;

(ii) the rights, powers, duties and obligations conferred by the Indenture or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee or by the Indenture Trustee and such co-trustee jointly, as shall be provided in the instrument appointing such co-trustee, except to the extent that, under any law of any jurisdiction in which any particular act is to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee;

(iii) the Indenture Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Trust evidenced by a Trust Request, may accept the resignation of or remove any co-trustee appointed under this Section, and, in case an Event of Default has occurred and is continuing, the Indenture Trustee shall have power to accept the resignation of, or remove, any such co-trustee without the concurrence of the Trust. Upon the written request of the Indenture Trustee, the Trust shall join with the Indenture Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee so resigned or removed may be appointed in the manner provided in this Section;

(iv) no co-trustee under the Indenture shall be personally liable by reason of any act or omission of the Indenture Trustee or any other such trustee under the Indenture and the Indenture Trustee shall not be personally liable by reason of any act or omission of any co-trustee under the Indenture; and

(v) any Act of Holders delivered to the Indenture Trustee shall be deemed to have been delivered to each such co-trustee.

#### SECTION 7.16. Appointment and Duties of the Calculation Agent.

(a) Unless the Paying Agent advises the Trust that it is unable to act as Calculation Agent, the Trust appoints the Paying Agent at its specified office as Calculation Agent in relation to the Notes in respect of which it is named as such in the relevant Pricing Supplement for the purposes specified in the Indenture and all matters incidental thereto.

(b) The Paying Agent accepts its appointment as Calculation Agent in relation to the Notes in respect of which it is named as such in the relevant Pricing Supplement and shall perform all matters expressly to be performed by it in, and otherwise comply with, the terms and conditions of the Notes and the provisions of the Indenture and, in connection therewith, shall take all such action as may be incidental thereto. The Paying Agent acknowledges and agrees

that it shall be named in the relevant Pricing Supplement as Calculation Agent in respect of the Notes unless the Relevant Agents (or one of the Relevant Agents) through whom the Notes are issued has agreed with the Trust to act as Calculation Agent (in which case such Relevant Agent or Agents shall be named as Calculation Agent in the related Pricing Supplement). If the Calculation Agent is incapable or unwilling to perform its duties under the Indenture, the Indenture Trustee will appoint the Paying Agent or another leading commercial bank to serve as Calculation Agent. Any resignation by or termination of a Calculation Agent shall not be effective until a successor Calculation Agent has been appointed.

(c) The Calculation Agent shall:

(i) obtain such quotes and rates and/or make such determinations, calculations and adjustments as may be required under the Notes and provide notice of any applicable interest rate calculations or determinations or periods with respect to the Notes to the Holders of the Notes upon their request and to the Indenture Trustee, Paying Agent, the Trust, Principal Life and PFG, and if the Notes are listed on a stock exchange, and the rules of such exchange so require, such exchange as soon as possible after the Calculation Agent's determination or calculation of such interest rates or interest rate periods, but in no event later than the fourth (4th) Banking Day thereafter or, earlier in the case of notification to a stock exchange, if the rules of such exchange so require; and

(ii) maintain a record of all quotations obtained by it and of all amounts, rates and other items determined or calculated by it and make such record available for inspection at all reasonable times by the Trust, the Indenture Trustee, Principal Life, PFG and the Paying Agent.

(d) The Calculation Agent shall have no liability to the Holders of Notes in respect of any determination, calculation, quote or rate made or provided by the Calculation Agent.

#### SECTION 7.17. Changes in Agents.

(a) Any Agent may resign its appointment under the Indenture upon the expiration of not less than thirty (30) days' notice to that effect to the Trust (with a copy to the Indenture Trustee); provided, however, that any such notice which would otherwise expire within thirty (30) days before or after the Maturity Date or any interest or other payment date of the Notes shall be deemed to expire on the thirtieth (30th) day following the Maturity Date or, as the case may be, such interest or other payment date.

(b) The Trust may revoke its appointment of any Agent under the Indenture by giving not less than thirty (30) days' notice to the applicable Agent and the Indenture Trustee to that effect.

(c) The appointment of any Agent under the Indenture shall terminate forthwith if any of the following events or circumstances shall occur or arise, namely, such Agent becomes incapable of acting; is adjudged bankrupt or insolvent; files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the

appointment of a receiver, administrator or other similar official of all or any substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof; a resolution is passed or an order is made for the winding-up or dissolution of such Agent; a receiver, administrator or other similar official of such Agent or of all or any substantial part of its property is appointed; an order of any court is entered approving any petition filed by or against such Agent under the provisions of any applicable bankruptcy or insolvency law; or any public officer takes charge or control of such Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation.

(d) The Trust may (and shall where necessary to comply with the terms and conditions of the Notes) appoint substitute or additional agents in relation to the Notes and shall forthwith notify the other parties to the Indenture, whereupon the parties to the Indenture and such substitute or additional agents shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture.

(e) If any Agent gives notice of its resignation in accordance with this Section 7.17, the provisions of paragraph (d) of Section 7.17 apply and by the tenth (10th) day before the expiration of such notice a successor to such Agent in relation to such Notes has not been appointed by the Trust, such Agent may itself, following such consultation with the Trust as may be practicable in the circumstances, appoint as its successor any reputable and experienced bank or financial institution (which will ensure compliance with the terms and conditions of the Notes) and give notice of such appointment in accordance with the terms and conditions of the Notes, whereupon the parties to the Indenture and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture.

(f) Upon any resignation or revocation becoming effective under this Section, the relevant Agent shall:

(i) be released and discharged from its obligations under the Indenture;

(ii) repay, in accordance with the applicable Expense and Indemnity Agreement, to Principal Life such part of any fee paid to it as may be agreed between the relevant Agent and Principal Life;

(iii) in the case of the Paying Agent, deliver to the Trust and to the successor Paying Agent a copy, certified as true and up-to-date by an officer of the Paying Agent, of the records maintained by it in accordance with Section 3.04;

(iv) in the case of the Registrar, deliver to the Trust and to the successor Registrar a copy, certified as true and up-to-date by an officer of such Registrar, of each of the Registers and other records maintained by it in accordance with Section 2.06;

(v) in the case of a Calculation Agent, deliver to the Trust and to the successor Calculation Agent a copy, certified as true and up-to-date by an officer of such Calculation Agent of the records maintained by it in accordance with Section 7.16; and

(vi) upon payment to it by Principal Life of all amounts owed to it, forthwith transfer all moneys and papers (including any unissued Global Notes or Definitive Notes) held by it under the Indenture to its successor in that capacity and, upon appropriate notice, provide reasonable assistance to such successor for the discharge by it of its duties and responsibilities under the Indenture.

(g) Any corporation into which any Agent may be merged or converted, any corporation with which any Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which any Agent shall be a party or any corporation succeeding to all or substantially all the corporate agency business of such Agent, shall, to the extent permitted by applicable law, be the successor to such Agent under the Indenture and in relation to the Notes without any further formality, whereupon the parties to the Indenture and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture. Notice of any such merger, conversion, consolidation or asset transfer shall forthwith be given by such successor to the Trust and the other parties to the Indenture.

(h) If any Agent decides to change its specified office (which may only be effected within the same city) it shall give notice to the Trust (with a copy to the Indenture Trustee) of the address of the new specified office stating the date on which such change is to take effect, which date shall be not less than thirty (30) days after the date of such notice. The relevant Agent shall at its own expense not less than fourteen (14) days prior to the date on which such change is to take effect (unless the appointment of the relevant Agent is to terminate pursuant to any of the foregoing provisions of this Section on or prior to the date of such change) publish or cause to be published notice thereof.

Upon the execution of the Indenture and thereafter forthwith upon any change of the same, the Trust shall deliver to the Indenture Trustee (with a copy to the Paying Agent) a list of the Authorized Signatories of the Trust together with certified specimen signatures of the same.

SECTION 7.18. Limitation of Trustee Liability. It is expressly understood and agreed by the parties that (a) the Indenture is executed and delivered by U.S. Bank Trust National Association, not individually or personally, but solely as trustee of the Trust, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements in the Indenture made on the part of the Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association, but is made and intended for the purpose of binding only the Trust, (c) nothing contained in the Indenture shall be construed as creating any liability on the part of U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained in the Indenture, all such liability, if any, being expressly waived by the parties to the Indenture and by any person claiming by, through or under the parties to the Indenture, and (d) under no circumstances shall U.S. Bank Trust National Association, be

personally liable for the payment of any indebtedness or expenses of the Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Trust under the Indenture or any other related documents.

ARTICLE 8  
SUPPLEMENTAL INDENTURES

SECTION 8.01. Supplemental Indentures Without Consent of Holders. Without notice to, or the consent of, any Holder, the Trust and the Indenture Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Indenture, in form satisfactory to the Indenture Trustee, for the purpose of:

(a) curing any ambiguity or correcting or supplementing any provision contained in the Indenture, in the Notes or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture, the Notes, the Funding Agreement or any other Program Documents, which shall not materially adversely affect the interests of any Holder of the Notes;

(b) evidencing and providing for the acceptance of appointment under the Indenture of a successor Indenture Trustee and to add or to change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the Trust or of the Notes under the Indenture by more than one trustee;

(c) adding to the covenants of the Trust or the Indenture Trustee for the benefit of the Holders of the Notes or to surrender any right or power conferred in the Indenture on the Trust;

(d) adding any additional Events of Default;

(e) to provide for the issuance of and establish the form and terms and conditions of Notes as provided in Section 2.02; or

(f) to establish the form of any certifications required to be furnished pursuant to the terms of the Indenture or of the Notes.

Notwithstanding any other provision, the Trust will not enter into any supplemental indenture with the Indenture Trustee or permit the Indenture to be amended or modified if such supplemental indenture, amendment or modification would cause the Trust not to be disregarded or treated as a grantor trust (assuming the Trust were not disregarded) for United States federal income tax purposes.

The Indenture Trustee shall be entitled to receive and rely on an Opinion of Counsel as to whether any such supplemental indenture complies with the requirements of Section 8.01(a), if applicable, and any such opinion shall be conclusive on the Holders.

SECTION 8.02. Supplemental Indenture With Consent of Holders.

(a) With the consent of the Holders of Notes representing a majority in aggregate principal amount of all Outstanding Notes affected by such supplemental indenture, by Act of said Holders delivered to the Trust and the Indenture Trustee, the Trust and the Indenture Trustee may enter one or more indentures supplemental to the Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of the Holders of the Notes under the Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Note affected thereby:

(i) change the Stated Maturity Date of the principal of, or the time of payment of interest on, any Note;

(ii) reduce the principal amount of, or the interest on, any Note;

(iii) change any Place of Payment where, or the coin or currency in which the principal of, or interest on, any Note is payable;

(iv) impair or affect the right of any Holder to institute suit for the enforcement of any payment on or with respect to the Notes;

(v) reduce the percentage of the aggregate principal amount of the Outstanding Notes, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with provisions of the Indenture or defaults thereunder and their consequences provided for in the Indenture;

(vi) modify any of the provisions of this Section or similar provisions, except to increase any percentage specified in the Indenture or to provide that additional provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Note affected thereby;

(vii) modify or alter the provisions of the definition of the term "Outstanding";

(viii) modify or affect in any manner adverse to the interest of any Holder the terms and conditions of the obligations of the Trust regarding the due and punctual payment of the principal of or interest on, or any other amounts due with respect to, the Notes; or

(ix) permit the creation of any Lien ranking prior to or on a parity with the Lien of the Indenture with respect to any part of any Collateral or terminate the Lien of the Indenture on any property held for the benefit and security of Holders at any time subject to the Indenture or deprive any Holder of the security afforded by the Lien of the Indenture.

(b) The Indenture Trustee may in its discretion determine whether or not any Notes would be affected by any supplemental indenture (and may receive and conclusively rely upon an Opinion of Counsel in doing so) and any such determination shall be conclusive upon all

the Holders, whether theretofore or thereafter authenticated and delivered under the Indenture. The Indenture Trustee shall not be liable for any such determination made in good faith. It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof. Promptly after the execution by the Trust and the Indenture Trustee of any supplemental indenture pursuant to this Section, the Indenture Trustee shall mail to the Holders of the Notes a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Trust to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

(c) Notwithstanding any other provision, the Trust will not enter into any supplemental indenture with the Indenture Trustee or permit the Indenture to be amended or modified if such supplemental indenture, amendment or modification would cause the Trust not to be treated as a disregarded entity or as a grantor trust (assuming it was not a disregarded entity) for United States federal income tax purposes.

SECTION 8.03. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by the Indenture, the Indenture Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel or officer's certificate stating that the execution of such supplemental indenture is authorized or permitted by the Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, indemnities or immunities under the Indenture or otherwise.

SECTION 8.04. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture under this Article, the Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of the Indenture for all purposes; and every Holder of a Note which has theretofore been or thereafter authenticated and delivered under the Indenture shall be bound thereby. Further, the Trust shall be bound by any such supplemental indenture.

SECTION 8.05. Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. If the Trust shall so determine, new Notes so modified as to conform, in the opinion of the Indenture Trustee and the Trust, to any such supplemental indenture may be prepared and executed by the Trust and authenticated by the Indenture Trustee and delivered by the Indenture Trustee in exchange for Outstanding Notes.

SECTION 8.06. Conformity with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

ARTICLE 9  
NON-RECOURSE PROVISIONS

SECTION 9.01. Nonrecourse Enforcement. Notwithstanding anything to the contrary contained in the Indenture or any Notes, none of Principal Life, its officers, directors, Affiliates, employees or agents, PFG, its officers, directors, Affiliates, employees or agents, or the Trust or any of the Trustee, the Trust Beneficial Owner, the Agents or any of their respective officers, directors, Affiliates, employees or agents (the "NONRECOURSE PARTIES") will be personally liable for the payment of any principal, interest or any other sums at any time owing under the terms of the Notes. If any Event of Default shall occur with respect to the Notes, the right of the Holders of the Notes and the Indenture Trustee on behalf of such Holders in connection with a claim on such Notes shall be limited solely to a proceeding against the Collateral. Neither such Holders nor the Indenture Trustee on behalf of such Holders will have the right to proceed against the Nonrecourse Parties or the assets held in any other trust organized under the Program or otherwise, to enforce the Notes (except that to the extent they exercise their rights, if any, to (i) seize the Funding Agreement, they may enforce the Funding Agreement against Principal Life, its successors or assigns or (ii) collect under the Guarantee, they may enforce their rights under the Guarantee against PFG, its successors or assigns) or for any deficiency judgment remaining after foreclosure of any property included in the Collateral.

It is expressly understood and agreed that nothing contained in this Section 9.01 shall in any manner or way constitute or be deemed a release of the debt or other obligations evidenced by the Notes or otherwise affect or impair the enforceability against the Trust of the liens, assignments, rights and security interests created by the Indenture, the Collateral or any other instrument or agreement evidencing, securing or relating to the indebtedness or the obligations evidenced by the Notes. Nothing in this Section 9.01 shall preclude the Holders from foreclosing upon any property included in the Collateral.

Holders may not seek to enforce rights against the Trust (a) by commencing any recovery or enforcement proceedings against the Trust, (b) by applying to wind up the Trust, (c) otherwise than through the Indenture Trustee in its exercise of powers to petition a court to appoint a receiver or administrator to the Trust or for the Collateral, (d) by making any statutory demand upon the Trust under applicable corporation law, or (e) in any other manner except as may be provided in the Indenture or in the Notes.

ARTICLE 10  
MEETINGS OF HOLDERS OF NOTES

SECTION 10.01. Purposes for Which Meetings May be Called. A meeting of Holders of Notes may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be made, given or taken by the Holders of Notes.

SECTION 10.02. Call, Notice and Place of Meetings. (a) Unless otherwise provided in the Notes, the Indenture Trustee may at any time call a meeting of Holders of the Notes for any purpose specified in Section 10.01, to be held at such time and at such place in The City of New York or such other place as the Indenture Trustee shall determine. Notice of every meeting of



Holder, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 1.06, not less than twenty-one (21) nor more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Trust or the Holders of at least ten percent (10%) in principal amount of the Outstanding Notes shall have requested the Indenture Trustee to call a meeting of Holders for any purpose specified in Section 10.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Indenture Trustee shall not have made the first publication or mailing of the notice of such meeting within twenty-one (21) days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided in the Indenture, then the Trust or the Holders of Notes in the amount above specified, as the case may be, may determine the time and the place in The City of New York and may call such meeting for such purposes by giving notice thereof as provided in paragraph (a) of this Section.

SECTION 10.03. Persons Entitled to Vote at Meetings. To be entitled to vote at any meeting of Holders, a Person shall be (a) a Holder of one or more Outstanding Notes; or (b) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Notes by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Indenture Trustee and its counsel and any representatives of the Trust and its counsel.

SECTION 10.04. Quorum; Action. The Persons entitled to vote a majority in principal amount of the Outstanding Notes shall constitute a quorum for a meeting of Holders; provided, however, that if any action is to be taken at such meeting with respect to a consent or waiver which the Indenture expressly provides may be given by the Holders of a majority in principal amount of the Outstanding Notes, the Persons entitled to vote a majority in principal amount of the Outstanding Notes shall constitute a quorum. In the absence of a quorum within thirty (30) minutes after the time appointed for any such meeting, the meeting shall, if convened at the request of Holders, be dissolved. In any other case the meeting may be adjourned for a period of not less than ten (10) days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten (10) days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 10.02(a), except that such notice need be given only once not less than five (5) days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Notes which shall constitute a quorum.

Except as limited by Section 8.02(a) and Section 6.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Notes; provided, however, that, except as limited by Section 8.02(a) and Section 6.02, any resolution with respect to any consent or waiver which the Indenture expressly provides may be given by the Holders of a majority in principal amount of the Outstanding Notes

may be adopted at a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Notes; and provided, further, that, except as limited by Section 8.02(a) and Section 6.02, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which the Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority in principal amount of the Outstanding Notes may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Notes.

Notwithstanding the preceding two paragraphs, any request, demand, authorization, direction, notice, consent, waiver or other action of Holders under the Indenture or the Notes may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as otherwise expressly provided in the Indenture, such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee and, when it is expressly required, to the Trust. The percentage of principal amount of the Outstanding Notes held by the Holders delivering such instruments which is required to approve any such action shall be the same as the percentage required for approval at a duly convened meeting of Holders.

Any resolution passed or decision taken at any meeting of Holders duly held or by duly executed instrument in accordance with this Section shall be binding on all Holders of the Notes, whether or not such Holders were present or represented at the meeting.

**SECTION 10.05. Determination of Voting Rights; Conduct and Adjournment of Meetings.**

(a) Notwithstanding any other provisions of the Indenture, the Indenture Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders in regard to proof of the holding of Notes and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Notes shall be proved in the manner specified in Section 1.04 and the appointment of any proxy shall be proved in the manner specified in Section 1.04. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.04 or other proof.

(b) The Indenture Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Trust or by Holders as provided in Section 10.02(b), in which case the Trust or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Notes represented at the meeting.

(c) At any meeting, each Holder or proxy shall be entitled to one vote for each \$1,000 of principal amount of Notes held or represented by him, her or it; provided, however, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder or proxy.

(d) Notwithstanding any other provision in the Indenture to the contrary, any meeting of Holders duly called pursuant to Section 10.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Notes represented at the meeting; and the meeting may be held as so adjourned without further notice.

SECTION 10.06. Counting Votes and Recording Action of Meetings. The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 10.02 and, if applicable, Section 10.04. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Trust, and another to the Indenture Trustee to be preserved by the Indenture Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

#### ARTICLE 11 NOTES IN FOREIGN CURRENCIES

SECTION 11.01. Notes in Foreign Currencies. In the absence of any provision to the contrary in the form of Notes, whenever the Indenture provides for (a) any action by, or the determination of any of the rights of, the Holders of Notes if not all of the Notes are denominated in the same currency, or (b) any distribution to the Holders of Notes of any amount in respect of any Note denominated in a currency other than Dollars, then all foreign denominated Notes shall be treated for any such action, determination of rights or distribution as that amount of Dollars that could be obtained for such amount on such reasonable basis of exchange and as of the Regular Record Date with respect to such Notes for such action, determination of rights or distribution (or, if there shall be no applicable Regular Record Date, such other date reasonably proximate to the date of such action, determination of rights or distribution) as the Trust may specify in a written notice to the Indenture Trustee or, in the absence of such written notice, as the Indenture Trustee may determine.

EXHIBIT A-1  
FORM OF RETAIL GLOBAL NOTE

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF A DEPOSITARY (AS DEFINED IN THE INDENTURE) OR A NOMINEE OF A DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND UNLESS ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

PRINCIPAL LIFE INCOME FUNDINGS TRUST o

PRINCIPAL(R) LIFE CORENOTES(R)

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing: [ ] Yes [ ] No. If yes,  
    indicate name(s) of Securities Exchange(s):  
\_\_\_\_\_  
Depository:  
Authorized Denominations:

Floating Rate Note: [ ] Yes [ ] No. If yes,  
Regular Floating Rate Notes [ ]  
Floating Rate/ Fixed Rate Notes: [ ]  
Interest Rate:  
Interest Rate Basis(es):  
LIBOR [ ]  
[ ] LIBOR Reuters Page:  
[ ] LIBOR Moneyline Telerate Page:  
LIBOR Currency:

- - - - -

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license. "CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

Collateral held in the Trust: Principal Life Insurance Company Funding Agreement No. \_\_, the related Principal Financial Group, Inc. Guarantee which fully and unconditionally guarantees the payment obligations of Principal Life Insurance Company under the Funding Agreement, all proceeds of the Funding Agreement and the related Guarantee and all rights and books and records pertaining to the foregoing.

Interest Rate or Formula:

Fixed Rate Note:  Yes  No. If yes,

Interest Rate:

Interest Payment Frequency:

Day Count Convention:

Additional/Other Terms:

Discount Note:  Yes  No. If yes,

Total Amount of Discount:

Initial Accrual Period of Discount:

Interest Payment Dates:

Additional/Other Terms:

Redemption Provisions:  Yes  No. If yes,

Initial Redemption Date:

Additional/Other Terms:

Repayment Provisions:  Yes  No. If yes,

Repayment Date(s):

Repayment Price:

Additional/Other Terms:

CMT Rate

Designated CMT Telerate Page:

If Telerate Page7052:

Weekly Average

Monthly Average

Designated CMT Maturity Index:

CD Rate

Commercial Paper Rate

Prime Rate

Treasury Rate

Index Maturity:

Spread and/or Spread Multiplier:

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Reset Dates:

Interest Determination Date(s):

Interest Payment Dates:

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Fixed Rate Commencement Date, if any:

Fixed Interest Rate, if any:

Day Count Convention:

Additional/Other Terms:

Regular Record Date(s):

Sinking Fund:

Calculation Agent:

Additional/Other Terms:

Survivor's Option:  Yes  No.

If yes, the attached Survivor's

Option Rider is incorporated into this Note.

Trust Put Limitation:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to Cede & Co., or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing

Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

Payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, will be made through the Indenture Trustee to the account of DTC or its nominee and will be made in accordance with depository arrangements with DTC.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE FORM OF NOTE]

SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY. This Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars.

SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month this Note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":



(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, LIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.

(vii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to LIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (4) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(viii) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination

made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(ix) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(x) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xi) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded to the nearest cent.

(xii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiii) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

(1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:

- i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a "Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular

Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
  - vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
  - vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
  - viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or
- (2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:
- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor

service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--



Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately

11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(E) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of

business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(F) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity

closest to the Index Maturity specified on the face hereof; or (7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment

Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable. In the event of repayment of this Note in part only, a new Note for the portion hereof not repaid shall be issued in the name of the Holder hereof upon the surrender hereof.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; NO ADDITIONAL AMOUNTS; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.

SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of a book-entry-only system with no physical distribution of certificates to be made except as provided in the Indenture. The book-entry system maintained by DTC will evidence ownership of the Notes, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The Trust and the Indenture Trustee will recognize Cede & Co., as nominee of DTC, as the registered owner of the Notes, as the Holder of the Notes for all purposes, including payment of principal, premium (if any) and interest, notices and voting. Transfer of principal, premium (if any) and interest to participants of DTC will be the responsibility of DTC, and transfer of principal, premium (if any) and interest to beneficial holders of the Notes by participants of DTC will be the responsibility of such participants and other nominees of such beneficial holders. So long as the book-entry system is in effect, the selection of any Notes to be redeemed or repaid will be determined by DTC pursuant to rules and procedures established by DTC and its participants. Neither the Trust nor the Indenture Trustee will not be responsible or liable for such transfers or payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

(d) This Note or portion hereof may not be exchanged for Definitive Notes, except in the limited circumstances provided for in the Indenture. The transfer or exchange of Definitive

Notes shall be subject to the terms of the Indenture. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.



OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE: \_\_\_\_\_

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

\$ \_\_\_\_\_

\_\_\_\_\_  
NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

Name: \_\_\_\_\_  
Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_

## SURVIVOR'S OPTION RIDER

(a) Unless this Note, on its face, has been declared due and payable prior to the Maturity Date by reason of any Event of Default under the Indenture, or has been previously redeemed or otherwise repaid, the authorized Representative (as defined below) of a deceased Beneficial Owner (as defined below) of this Note shall have the option to elect repayment by the Trust in whole or in part prior to the Maturity Date following the death of the Beneficial Owner (a "Survivor's Option"). The Survivor's Option may not be exercised unless this Note was held by the Beneficial Owner or the estate of that Beneficial Owner for a period beginning at least 6 months immediately prior to the death of such Beneficial Owner. "Beneficial Owner" as used in this Survivor's Option Rider means, with respect to this Note, the person who has the right, immediately prior to such person's death, to receive the proceeds from the disposition of this Note, as well as the right to receive payments on this Note.

(b) Upon (1) the valid exercise of the Survivor's Option and the proper tender of this Note by or on behalf of a person that has authority to act on behalf of the deceased Beneficial Owner of this Note under the laws of the appropriate jurisdiction (including, without limitation, the personal representative or executor of the deceased Beneficial Owner or the surviving joint owner of the deceased Beneficial Owner) (the "Representative") and (2) the tender and acceptance of that portion of the Funding Agreement equal to the amount of the portion of this Note to be redeemed, the Trust shall repay this Note (or portion thereof) at a price equal to 100% of the unpaid Principal Amount of the deceased Beneficial Owner's beneficial interest in this Note plus accrued and unpaid interest to, but excluding, the date of such repayment. However, the Trust shall not be obligated to repay:

(i) beneficial ownership interests in Notes exceeding the greater of \$2,000,000 or 2% (or such other amounts, as specified in the Pricing Supplement) in aggregate principal amount for all notes then outstanding under the Principal(R) Life CoreNotes(R) program as of the end of the most recent calendar year (the "Annual Put Limitation");

(ii) on behalf of an individual deceased Beneficial Owner, any beneficial ownership interest in all notes issued under the Principal(R) Life CoreNotes(R) program that exceeds \$250,000 (or such other amounts, as specified in the Pricing Supplement) in any calendar year (the "Individual Put Limitation"); or

(iii) beneficial ownership interests in Notes exceeding the amount specified on the face hereof and in the Pricing Supplement (the "Trust Put Limitation").

(c) The Trust shall not make principal repayments pursuant to exercise of the Survivor's Option in amounts that are less than \$1,000, and, in the event that the limitations described in the preceding sentence would result in the partial repayment of this Note, the Principal Amount remaining Outstanding after repayment must be at least \$1,000 (the minimum authorized denomination of the Notes).

(d) An otherwise valid election to exercise the Survivor's Option may not be withdrawn.

(e) Election to exercise the Survivor's Option will be accepted in the order that elections are received by the Trustee, except for any Notes (or portion thereof) the acceptance of which

would contravene (1) the Annual Put Limitation, (2) the Individual Put Limitation or (3) the Trust Put Limitation. Any Note (or portion thereof) accepted for repayment pursuant to exercise of the Survivor's Option shall be repaid on the first Interest Payment Date that occurs 20 or more calendar days after the date of such acceptance. If, as of the end of any calendar year, the aggregate principal amount of all notes (or portions thereof) issued under the Principal(R) Life CoreNotes program that have been tendered pursuant to the valid exercise of the Survivor's Option during such year has exceeded the Annual Put Limitation, the Individual Put Limitation or the Trust Put Limitation, for such year, any exercise(s) of the Survivor's Option with respect to Notes (or portions thereof) not accepted during such calendar year, because such acceptance would have contravened any such limitation, shall be deemed to be tendered on the first day of the following calendar year in the order all such notes (or portions thereof) were originally tendered. In the event that this Note (or any portion hereof) tendered for repayment pursuant to valid exercise of the Survivor's Option is not accepted or is to be delayed, the Trustee shall deliver a notice by first-class mail to the Depository that states the reason such Note (or portion thereof) has not been accepted for payment or is to be delayed.

(f) In order to obtain repayment through exercise of the Survivor's Option with respect to this Note (or portion hereof), the Representative must provide the following items to the broker or other entity through which the beneficial interest in this Note is held by the deceased Beneficial Owner: (1) a written instruction to such broker or other entity in the form of Annex A attached hereto to notify the Depository of the Representative's desire to obtain repayment through the exercise of the Survivor's Option; (2) appropriate evidence satisfactory to the Trustee that (i) the deceased was the Beneficial Owner of this Note at the time of death and the interest in this Note was owned by the deceased Beneficial Owner or his or her estate for a period beginning at least six months immediately prior to the death of such Beneficial Owner, (ii) the death of such Beneficial Owner has occurred, and the date of such death, and (iii) the Representative has authority to act on behalf of the deceased Beneficial Owner; (3) if the interest in this Note is held by a nominee of the deceased Beneficial Owner, a certificate satisfactory to the Trustee from such nominee attesting to the deceased's beneficial ownership of this Note; (4) a written request for repayment signed by the Representative, with the signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States; (5) if applicable, a properly executed assignment or endorsement; (6) tax waivers and such other instruments or documents that the Trustee reasonably requires in order to establish the validity of the beneficial ownership of this Note and the claimant's entitlement to payment; and (7) any additional information the Trustee reasonably requires to evidence satisfaction of any conditions to the exercise of such Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of this Note. Such broker or other entity shall then deliver each of these items to the direct participant of the Depository, such direct participant being the entity that holds the beneficial interest in this Note on behalf of the deceased Beneficial Owner, together with evidence satisfactory to the Indenture Trustee from the broker or other entity stating that it represents the deceased Beneficial Owner. Such direct participant shall then deliver such items to the Indenture Trustee. The Indenture Trustee will then deliver these items to the Trustee and will provide the Trustee with any additional information (after receipt from such direct participant) the Trustee may request in connection with such exercise. Such direct participant shall be responsible for disbursing any payments it receives from the Depository pursuant to exercise of the Survivor's Option to the

appropriate Representative. All questions, other than with respect to the right to limit the aggregate Principal Amount of Notes as to which exercises of the Survivor's Option shall be accepted in any one calendar year or as to the Notes, regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.

(g) The death of a person holding a beneficial interest in this Note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased owner's spouse, will be deemed the death of the Beneficial Owner of this Note, and the entire Principal Amount of this Note so held shall be subject to repayment by the Trust upon request in accordance with the terms and provisions hereof. However, the death of a person holding a beneficial interest in this Note as tenant in common with a person other than such deceased owner's spouse will be deemed the death of a Beneficial Owner only with respect to such deceased person's ownership interest in this Note.

(h) The death of a person who was a lifetime beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note to the extent of that person's interest in the trust. The death of a person who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note only with respect to the deceased person's beneficial interest in this Note, unless a husband and wife are the tenants in common, in which case the death of either will be treated as the death of the owner of this Note.

(i) The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in this Note will be deemed the death of the Beneficial Owner of this Note for purposes of the Survivor's Option, regardless of whether that Beneficial Owner was the registered holder of this Note, if such beneficial ownership interest can be established to the satisfaction of the Trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, such as ownership under the Uniform Transfers of Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife and lifetime custodial and trust arrangements.

REPAYMENT ELECTION FORM

PRINCIPAL LIFE INSURANCE COMPANY

PRINCIPAL(R) LIFE CORENOTES(R)

CUSIP NUMBER \_\_\_\_\_

To: [Name of Issuing Trust] (the "TRUST")

The undersigned financial institution (the "FINANCIAL INSTITUTION") represents the following:

- o The Financial Institution has received a request for repayment from the executor or other authorized representative (the "AUTHORIZED REPRESENTATIVE") of the deceased beneficial owner listed below (the "DECEASED BENEFICIAL OWNER") of Principal(R) Life CoreNotes(R) (CUSIP No. \_\_\_\_\_) (the "NOTES").
- o At the time of his or her death, the Deceased Beneficial Owner owned Notes in the principal amount listed below.
- o The Deceased Beneficial Owner acquired the Notes at least six (6) months before the date of death of such Deceased Beneficial Owner.
- o The Financial Institution currently holds such notes as a direct or indirect participant in The Depository Trust Company (the "DEPOSITARY").

The Financial Institution agrees to the following terms:

- o The Financial Institution shall follow the instructions (the "INSTRUCTIONS") accompanying this Repayment Election Form (this "FORM").
- o The Financial Institution shall make all records specified in the Instructions supporting the above representations available to U.S. Bank Trust National Association (the "TRUSTEE") or the [Name of Issuing Trust] (the "TRUST") for inspection and review within five business days of the Trustee's or the Trust's request.
- o If the Financial Institution, the Trustee or the Trust, in any such party's reasonable discretion, deems any of the records specified in the Instructions supporting the above representations unsatisfactory to substantiate a claim for repayment, the

- - - - -

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license. "CoreNotes(R)" is a service mark of Merrill Lynch & Co.

Financial Institution shall not be obligated to submit this Form, and the Trustee or Trust may deny repayment. If the Financial Institution cannot substantiate a claim for repayment, it shall notify the Trustee immediately.

- o Repayment elections may not be withdrawn.
- o The Financial Institution agrees to indemnify and hold harmless the Trustee and the Trust against and from any and all claims, liabilities, costs, losses, expenses, suits and damages resulting from the Financial Institution's above representations and request for repayment on behalf of the Authorized Representative.
- o The Notes will be repaid on the first Interest Payment Date to occur at least 20 calendar days after the date of acceptance of the notes for repayment, unless such date is not a business day, in which case the date of repayment shall be the next succeeding business day.
- o Subject to the Trust's rights to limit the aggregate principal amount of Notes as to which exercises of the Survivor's Option shall be accepted in any one calendar year, all questions as to the eligibility or validity of any exercise of the Survivor's Option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.

REPAYMENT ELECTION FORM

(1) -----  
Name of Deceased Beneficial Owner

(2) -----  
Date of Death

(3) -----  
Name of Authorized Representative Requesting Repayment

(4) -----  
Name of Financial Institution Requesting Repayment

(5) -----  
Signature of Authorized Representative of Financial Institution Requesting Repayment

(6) -----  
Principal Amount of Requested Repayment

(7) -----  
Date of Election

(8)	Financial Institution Representative Name: Phone Number: Fax Number: Mailing Address (no P.O. Boxes):	(9)	Wire instructions for payment: Bank Name: ABA Number: Account Name: Account Number: Reference (optional):
-----	---	-----	--

-----

TO BE COMPLETED BY THE TRUSTEE:

- (A) ELECTION NUMBER\*:
- (B) DELIVERY AND PAYMENT DATE:
- (C) PRINCIPAL AMOUNT:
- (D) ACCRUED INTEREST:
- (E) DATE OF RECEIPT OF FORM BY THE TRUSTEE:
- (F) DATE OF ACKNOWLEDGMENT BY THE TRUSTEE:

- - - - -

\* To be assigned by the Trustee upon receipt of this Form. An acknowledgement, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated in item (8) above.

INSTRUCTIONS FOR COMPLETING REPAYMENT ELECTION FORM AND EXERCISING  
REPAYMENT OPTION

Capitalized terms used and not defined herein have the meanings defined in the accompanying Repayment Election Form.

1. Collect and retain for a period of at least three years (1) satisfactory evidence of the authority of the Authorized Representative, (2) satisfactory evidence of death of the Deceased Beneficial Owner, (3) satisfactory evidence that the Deceased Beneficial Owner beneficially owned, at the time of his or her death, the notes being submitted for repayment, (4) satisfactory evidence that the notes being submitted for repayment were acquired by the Deceased Beneficial Owner at least six (6) months before the date of the death of such Deceased Beneficial Owner, and (5) any necessary tax waivers. For purposes of determining whether the notes will be deemed beneficially owned by an individual at any given time, the following rules shall apply:
  - o If a note (or a portion thereof) is beneficially owned by tenants by the entirety or joint tenants, the note (or relevant portion thereof) will be regarded as beneficially owned by a single owner. Accordingly, the death of a tenant by the entirety or joint tenant will be deemed the death of the beneficial owner and the entire principal amount so owned will become eligible for repayment.
  - o The death of a person beneficially owning a note (or a portion thereof) by tenancy in common will be deemed the death of the beneficial owner only with respect to the deceased owner's interest in the note (or relevant portion thereof) so owned, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficial owner and the entire principal amount so owned will be eligible for repayment.
  - o A note (or a portion thereof) beneficially owned by a trust will be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary's interest in the trust (however, a trust's beneficiaries collectively cannot be beneficial owners of more notes than are owned by the trust). The death of a beneficiary of a trust will be deemed the death of the beneficial owner of the notes (or relevant portion thereof) beneficially owned by the trust to the extent of that beneficiary's interest in the trust. The death of an individual who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust only with respect to the deceased holder's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficiary of the trust.
  - o The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a note (or a portion thereof) will be deemed the death of the beneficial owner of that note (or relevant portion thereof), regardless of the registration of ownership, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest will exist in many cases of street name or nominee ownership, custodial arrangements, ownership by a trustee, ownership under the Uniform Transfers of Gifts to Minors Act and community property or other joint ownership arrangements between spouses. Beneficial interest will be evidenced by such factors as the power to sell or otherwise dispose of a note, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a note.
2. Indicate the name of the Deceased Beneficial Owner on line (1).
3. Indicate the date of death of the Deceased Beneficial Owner on line (2).
4. Indicate the name of the Authorized Representative requesting repayment on line (3).



5. Indicate the name of the Financial Institution requesting repayment on line (4).
6. Affix the authorized signature of the Financial Institution's representative on line (5). THE SIGNATURE MUST BE MEDALLION SIGNATURE GUARANTEED.
7. Indicate the principal amount of notes to be repaid on line (6).
8. Indicate the date this Form was completed on line (7).
9. Indicate the name, mailing address (no P.O. boxes, please), telephone number and facsimile-transmission number of the party to whom the acknowledgment of this election may be sent in item (8).
10. Indicate the wire instruction for payment on line (9).
11. Leave lines (A), (B), (C), (D), (E) and (F) blank.
12. Mail or otherwise deliver an original copy of the completed Form to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, New York 10005

13. FACSIMILE TRANSMISSIONS OF THE REPAYMENT ELECTION FORM WILL NOT BE ACCEPTED.
14. If the acknowledgement of the Trustee's receipt of this Form, including the assigned Election Number, is not received within ten days of the date such information is sent to Citibank, N.A., contact the Trustee at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.
15. For assistance with this Form or any questions relating thereto, please contact U.S. Bank Trust National Association at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.

EXHIBIT A-2  
FORM OF INSTITUTIONAL GLOBAL NOTE

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF A DEPOSITARY (AS DEFINED IN THE INDENTURE) OR A NOMINEE OF A DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND UNLESS ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

Principal Life Income Fundings Trust o

SENIOR SECURED MEDIUM-TERM NOTES

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing:  Yes  No. If yes,  
indicate name(s) of Securities Exchange(s):  
\_\_\_\_\_.

Depositary:  
Authorized Denominations:  
Collateral held in the Trust: Principal Life Insurance  
Company Funding Agreement No. o , the related  
Principal Financial Group, Inc. Guarantee which fully

Floating Rate Note:  Yes  No. If yes,  
Regular Floating Rate Notes   
Inverse Floating Rate Notes   
Floating Rate/ Fixed Rate Notes:   
Interest Rate:  
Interest Rate Basis(es):  
LIBOR   
 LIBOR Reuters Page:  
 LIBOR Moneyline Telerate Page:  
LIBOR Currency:  
EURIBOR

and unconditionally guarantees the payment obligations of Principal Life Insurance Company under the Funding Agreement, all proceeds of the Funding Agreement and the related Guarantee and all rights and books and records pertaining to the foregoing.

Additional Amounts to be Paid:  Yes  No

Interest Rate or Formula:

Fixed Rate Note:  Yes  No. If yes,

Interest Rate:

Interest Payment Frequency:

Day Count Convention:

Additional/Other Terms:

Amortizing Note:  Yes  No. If yes,

Amortization schedule or formula:

Additional/Other Terms:

Discount Note:  Yes  No. If yes,

Total Amount of Discount:

Initial Accrual Period of Discount:

Interest Payment Dates:

Additional/Other Terms:

Redemption Provisions:  Yes  No. If yes,

Initial Redemption Date:

Initial Redemption Percentage:

Annual Redemption Percentage Reduction,

if any:

Additional/Other Terms:

Repayment Provisions:  Yes  No. If yes,

Repayment Date(s):

Repayment Price:

Additional/Other Terms:

CMT Rate

Designated CMT Telerate Page:

If Telerate Page 7052:

Weekly Average

Monthly Average

Designated CMT Maturity Index:

CD Rate

Commercial Paper Rate

Eleventh District Cost of Funds Rate

Federal Funds Rate

Prime Rate

Treasury Rate

Index Maturity:

Spread and/or Spread Multiplier:

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Reset Dates:

Interest Determination Date(s):

Interest Payment Dates:

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Fixed Rate Commencement Date, if any:

Fixed Interest Rate, if any:

Day Count Convention:

Additional/Other Terms:

Regular Record Date(s):

Sinking Fund:

Specified Currency:

Exchange Rate Agent:

Calculation Agent:

Additional/Other Terms:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to Cede & Co., or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Unless otherwise specified above, payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). If the Specified Currency specified above is other than U.S. Dollars, the Holder (as defined in the Indenture) shall receive such payments in such Foreign Currency (as hereinafter defined). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter

defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

Payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, will be made through the Indenture Trustee to the account of DTC or its nominee and will be made in accordance with depository arrangements with DTC.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.

A-2-4

IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory

SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY.

(a) Unless specified otherwise on the face hereof, this Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars. If specified as the Specified Currency, this Note may be denominated in, and payments of principal, premium, if any, and/or interest, if any, may be made in a single currency other than U.S. Dollars (a "Foreign Currency"). If this Note is denominated in a Foreign Currency, the Holder of this Note is required to pay for this Note in the Specified Currency.

(b) Unless specified otherwise on the face hereof, if this Note is denominated in a Foreign Currency, the Trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, this Note in the Specified Currency. Any amounts so payable by the Trust in the Specified Currency will be converted by the Exchange Rate Agent into U.S. Dollars for payment to the Holder hereof unless otherwise specified on the face of this Note or the Holder elects, in the manner described below, to receive these amounts in the Specified Currency. If this Note is denominated in a Foreign Currency, any U.S. Dollar amount to be received by the Holder hereof will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Trust for the purchase by the quoting dealer of the Specified Currency for U.S. Dollars for settlement on that payment date in the aggregate amount of the Specified Currency payable to all Holders of the Notes scheduled to receive U.S. Dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holders of the Notes by deductions from any payments. If three bid quotations are not available, payments will be made in the Specified Currency. If this Note is denominated in a Foreign Currency, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the Specified Currency by submitting a written request to the Indenture Trustee at its Corporate Trust Office in The City of New York on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the Indenture Trustee on or prior to a Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. The Holder of a Note denominated in a Foreign Currency to be held in the name of a broker or nominee should contact their broker or nominee to determine whether and how an election to receive payments in the Specified Currency may be made. Unless specified otherwise on the face hereof, if the Specified Currency is other than U.S. Dollars, a beneficial owner of a Note represented by a global security which elects to receive payments of principal, premium, if any, and/or interest, if any, in the Specified Currency must notify the participant

through which it owns its interest on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be, of its election. The applicable participant must notify DTC of its election on or prior to the third Business Day after the applicable Regular Record Date or at least 12 calendar days prior to the Maturity Date, as the case may be, and DTC will notify the Indenture Trustee of that election on or prior to the fifth Business Day after the applicable Regular Record Date or at least ten calendar days prior to the Maturity Date, as the case may be. If complete instructions are received by the participant from the applicable beneficial owner and forwarded by the participant to DTC, and by DTC to the Indenture Trustee, on or prior to such dates, then the applicable beneficial owner will receive payments in the Specified Currency.

(c) The Trust will indemnify the Holder hereof against any loss incurred as a result of any judgment or order being given or made for any amount due under this Note and that judgment or order requiring payment in a currency (the "Judgment Currency") other than the Specified Currency, and as a result of any variation between: (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of that judgment or order; and (ii) the rate of exchange at which the Holder, on the date of payment of that judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received.

(d) Unless otherwise specified on the face hereof, if payment hereon is required to be made in a Foreign Currency and such currency is unavailable due to the imposition of exchange controls or other circumstances beyond the Trust's control, then the Trust will be entitled to make payments with respect hereto in U.S. Dollars on the basis of the Market Exchange Rate (as hereinafter defined), computed by the Exchange Rate Agent, on the second Business Day prior to the particular payment or, if the Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

(e) The "Market Exchange Rate" for the Foreign Currency shall mean the noon dollar buying rate in The City of New York for cable transfers for the Foreign Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

(f) All determinations made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder hereof.

(g) All costs of exchange in respect of this Note, if denominated in a Foreign Currency, will be borne by the Holder hereof.

### SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.



(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month this Note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":

(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the

face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Inverse Floating Rate Notes. If this Note is specified on the face hereof as an "Inverse Floating Rate Note", this Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any; provided, however, that interest on this Inverse Floating Rate Note will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on this Inverse Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(vii) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month, with the exception of any

monthly reset Floating Rate Note as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.

(viii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate, Federal Funds Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to the Eleventh District Cost of Funds Rate--the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below); (4) with respect to LIBOR and EURIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (5) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(ix) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest

Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(x) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(xi) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xii) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded, in the case of U.S. Dollars, to

the nearest cent or, in the case of a Foreign Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

(xiii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiv) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors

of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

- (1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:
  - i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
  - ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
  - iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
  - iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a

"Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:

- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or



- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--

Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) Eleventh District Cost of Funds Rate Notes. If the Interest Rate Basis is the Eleventh District Cost of Funds Rate, this Note shall be deemed an "Eleventh District Cost of Funds Rate Note." Unless otherwise specified on the face hereof, "Eleventh District Cost of Funds Rate" means: (1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption "11th District" on the display on Moneyline Telerate (or any successor service) on page 7058 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7058") as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 7058, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the "Eleventh District Index") by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or (3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date,

the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

(E) Federal Funds Rate Notes. If the Interest Rate Basis is the Federal Funds Rate, this Note shall be deemed a "Federal Funds Rate Note." Unless otherwise specified on the face hereof, "Federal Funds Rate" means: (1) the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15(519) under the caption "Federal Funds (Effective)" and displayed on Moneyline Telerate (or any successor service) on page 120 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 120"); or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 120 or is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent prior to 9:00 A.M., New York City time, on that Interest Determination Date; or (4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate in effect on the particular Interest Determination Date.

(F) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include

affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(G) EURIBOR Notes. If the Interest Rate Basis is EURIBOR, this Note shall be deemed a "EURIBOR Note." Unless otherwise specified on the face hereof, "EURIBOR" means: (1) with respect to any Interest Determination Date relating to this EURIBOR Note (a "EURIBOR Interest Determination Date"), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI - The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, as the rate appears on Moneyline Telerate or any successor service, on page 248 (or any other page as may replace that specified page on the service) ("Moneyline Telerate Page 248") as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or (2) if such rate does not appear on Moneyline Telerate Page 248, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the

Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or (3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or (4) if the banks so selected by the Calculation Agent are not quoting as mentioned above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date. "Euro-zone" means the region comprised of member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union.

(H) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may

include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(I) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified on the face hereof; or (7) if the dealers so

selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Discount Note, if applicable, multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

(d) Amortizing Notes. If this Note is specified on the face hereof as an "Amortizing Note", this Note will bear interest in the same manner as set forth in Section 3(a) above, and payments on principal, premium, if any, and interest will be made as set forth on the face hereof

and/or in accordance with Schedule I attached hereto. The Trust will make payments combining principal, premium (if any) and interest, if applicable, on the dates and in the amounts set forth in the table appearing in Schedule I, attached to this Note or in accordance with the formula specified on the face hereof. Payments made hereon will be applied first to interest due and payable hereon and then to the reduction of the unpaid principal amount hereof.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean an amount equal to the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) multiplied by the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. The Initial Redemption Percentage, if any, applicable to this Note shall decline at each anniversary of the Initial Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100% of the unpaid amount thereof to be redeemed. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS AND AMORTIZING NOTES. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund. If this Note is an Amortizing Note, this Note may pay an amount in respect of both interest and principal amortized over the life of this Note.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture



Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event

Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.

SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of a book-entry-only system with no physical distribution of certificates to be made except as provided in the Indenture. The book-entry system maintained by DTC will evidence ownership of the Notes, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The Trust and the Indenture Trustee will recognize Cede & Co., as nominee of DTC, as the registered owner of the Notes, as the Holder of the Notes for all purposes, including payment of principal, premium (if any) and interest, notices and voting. Transfer of principal, premium (if any) and interest to participants of DTC will be the responsibility of DTC, and transfer of principal, premium (if any) and interest to beneficial holders of the Notes by participants of DTC will be the responsibility of such participants and other nominees of such beneficial holders. So long as the book-entry system is in effect, the selection of any Notes to be redeemed or repaid will be determined by DTC pursuant to rules and procedures established by DTC and its participants. Neither the Trust nor the Indenture Trustee will not be responsible or liable for such transfers or payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

(d) This Note or portion hereof may not be exchanged for Definitive Notes, except in the limited circumstances provided for in the Indenture. The transfer or exchange of Definitive Notes shall be subject to the terms of the Indenture. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE:

NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

\$ \_\_\_\_\_

Name: \_\_\_\_\_  
Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_

SCHEDULE I  
AMORTIZATION TABLE OR FORMULA

A-2-28

EXHIBIT A-3  
FORM OF INSTITUTIONAL DEFINITIVE NOTE

THIS NOTE IS A DEFINITIVE NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF THE HOLDER (AS DEFINED IN THE INDENTURE) HEREOF. THIS NOTE IS NOT EXCHANGEABLE FOR A GLOBAL NOTE (AS DEFINED IN THE INDENTURE).

UNLESS THIS NOTE IS PRESENTED BY THE HOLDER OR AN AUTHORIZED REPRESENTATIVE OF THE HOLDER TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED HOLDER HEREOF HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

Principal Life Income Fundings Trust o

SENIOR SECURED MEDIUM-TERM NOTES

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing:  Yes  No. If yes,  
    indicate name(s) of Securities Exchange(s):  
    \_\_\_\_\_.

Authorized Denominations:  
Collateral held in the Trust: Principal Life Insurance  
    Company Funding Agreement No. ?, the related Principal  
    Financial Group, Inc. Guarantee which fully and  
    unconditionally guarantees the payment obligations of  
    Principal Life Insurance Company under the Funding  
    Agreement, all proceeds of the Funding Agreement and  
    the related Guarantee and all rights and books and  
    records pertaining to the foregoing.

Additional Amounts to be Paid:  Yes  No  
Interest Rate or Formula:  
Fixed Rate Note:  Yes  No. If yes,  
    Interest Rate:  
    Interest Payment Frequency:  
    Day Count Convention:  
    Additional/Other Terms:

Floating Rate Note:  Yes  No. If yes,  
    Regular Floating Rate Notes   
    Inverse Floating Rate Notes   
    Floating Rate/ Fixed Rate Notes:   
Interest Rate:  
Interest Rate Basis(es):  
LIBOR   
     LIBOR Reuters Page:  
     LIBOR Moneyline Telerate Page:  
LIBOR Currency:  
EURIBOR   
CMT Rate   
    Designated CMT Telerate Page:  
        If Telerate Page 7052:  
             Weekly Average  
             Monthly Average

Designated CMT Maturity Index:  
CD Rate   
Commercial Paper Rate   
Eleventh District Cost of Funds Rate   
Federal Funds Rate   
Prime Rate

Amortizing Note: [ ] Yes [ ] No. If yes,  
Amortization schedule or formula:  
Additional/Other Terms:  
Discount Note: [ ] Yes [ ] No. If yes,  
Total Amount of Discount:  
Initial Accrual Period of Discount:  
Interest Payment Dates:  
Additional/Other Terms:  
Redemption Provisions: [ ] Yes [ ] No. If yes,  
Initial Redemption Date:  
Initial Redemption Percentage:  
Annual Redemption Percentage Reduction,  
if any:  
Additional/Other Terms:  
Repayment Provisions: [ ] Yes [ ] No. If yes,  
Repayment Date(s):  
Repayment Price:  
Additional/Other Terms:

Treasury Rate [ ]  
Index Maturity:  
Spread and/or Spread Multiplier:  
Initial Interest Rate, if any:  
Initial Interest Reset Date:  
Interest Reset Dates:  
Interest Determination Date(s):  
Interest Payment Dates:  
Maximum Interest Rate, if any:  
Minimum Interest Rate, if any:  
Fixed Rate Commencement Date, if any:  
Fixed Interest Rate, if any:  
Day Count Convention:  
Additional/Other Terms:  
Regular Record Date(s):  
Sinking Fund:  
Specified Currency:  
Exchange Rate Agent:  
Calculation Agent:  
Additional/Other Terms:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to \_\_\_\_\_, or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Unless otherwise specified above, payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). If the Specified Currency specified above is other than U.S. Dollars, the Holder (as defined in the Indenture) shall receive such payments in such Foreign Currency (as hereinafter defined). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

The Trust will make payments of principal of, and premium, if any, on the Maturity Date of this Note in immediately available funds against presentation and surrender hereof (and, in the case of any repayment on a Repayment Date, upon submission of a duly completed election form if and as required by the provisions described on the reverse hereof) at the office or agency maintained by the Trust for this purpose in the Borough of Manhattan, The City of New York. The Trust will make payments of interest and other amounts due and owing, if any, on the Maturity Date of this Note to the Person to whom payment of the principal hereof and premium, if any, hereon shall be made. The Trust will make payments of interest and other amounts due and owing, if any, on this Note on any Interest Payment Date other than the Maturity Date by check mailed to the Holder hereof. Notwithstanding the foregoing, the Paying Agent will make, or cause to be made, payments of interest and other amounts due and owing, if any, on this Note on any Interest Payment Date other than the Maturity Date to any Holder hereof of \$10,000,000 (or, if the Specified Currency is other than U.S. Dollars, the equivalent thereof in the particular Specified Currency) or more in aggregate principal amount of Notes (whether having identical or different terms and provisions) by wire transfer of immediately available funds if the Holder hereof has delivered appropriate wire transfer instructions in writing to the Indenture Trustee not less than 15 calendar days prior to the particular Interest Payment Date. Any wire transfer instructions received by the Indenture Trustee shall remain in effect until revoked by the Holder hereof.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.



REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE FORM OF NOTE]

SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY.

(a) Unless specified otherwise on the face hereof, this Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars. If specified as the Specified Currency, this Note may be denominated in, and payments of principal, premium, if any, and/or interest, if any, may be made in a single currency other than U.S. Dollars (a "Foreign Currency"). If this Note is denominated in a Foreign Currency, the Holder of this Note is required to pay for this Note in the Specified Currency.

(b) Unless specified otherwise on the face hereof, if this Note is denominated in a Foreign Currency, the Trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, this Note in the Specified Currency. Any amounts so payable by the Trust in the Specified Currency will be converted by the Exchange Rate Agent into U.S. Dollars for payment to the Holder hereof unless otherwise specified on the face of this Note or the Holder elects, in the manner described below, to receive these amounts in the Specified Currency. If this Note is denominated in a Foreign Currency, any U.S. Dollar amount to be received by the Holder hereof will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Trust for the purchase by the quoting dealer of the Specified Currency for U.S. Dollars for settlement on that payment date in the aggregate amount of the Specified Currency payable to all Holders of the Notes scheduled to receive U.S. Dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holders of the Notes by deductions from any payments. If three bid quotations are not available, payments will be made in the Specified Currency. If this Note is denominated in a Foreign Currency, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the Specified Currency by submitting a written request to the Indenture Trustee at its Corporate Trust Office in The City of New York on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the Indenture Trustee on or prior to a Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be.

(c) The Trust will indemnify the Holder hereof against any loss incurred as a result of any judgment or order being given or made for any amount due under this Note and that judgment or order requiring payment in a currency (the "Judgment Currency") other than the Specified Currency, and as a result of any variation between: (i) the rate of exchange at which

the Specified Currency amount is converted into the Judgment Currency for the purpose of that judgment or order; and (ii) the rate of exchange at which the Holder, on the date of payment of that judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received.

(d) Unless otherwise specified on the face hereof, if payment hereon is required to be made in a Foreign Currency and such currency is unavailable due to the imposition of exchange controls or other circumstances beyond the Trust's control, then the Trust will be entitled to make payments with respect hereto in U.S. Dollars on the basis of the Market Exchange Rate (as hereinafter defined), computed by the Exchange Rate Agent, on the second Business Day prior to the particular payment or, if the Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

(e) The "Market Exchange Rate" for the Foreign Currency shall mean the noon dollar buying rate in The City of New York for cable transfers for the Foreign Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

(f) All determinations made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder hereof.

(g) All costs of exchange in respect of this Note, if denominated in a Foreign Currency, will be borne by the Holder hereof.

SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month

this Note was issued.

Annual

Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":

(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date;

provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Inverse Floating Rate Notes. If this Note is specified on the face hereof as an "Inverse Floating Rate Note", this Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any; provided, however, that interest on this Inverse Floating Rate Note will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on this Inverse Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(vii) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month, with the exception of any monthly reset Floating Rate Note as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.

(viii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate, Federal Funds Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to the Eleventh District Cost of Funds Rate--the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below); (4) with respect to LIBOR and EURIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (5) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(ix) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(x) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so

designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(xi) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xii) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded, in the case of U.S. Dollars, to the nearest cent or, in the case of a Foreign Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

(xiii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more



Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiv) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

(1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:

- i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a "Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular

Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
  - vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
  - viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or
- (2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:
- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on

that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New

York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) Eleventh District Cost of Funds Rate Notes. If the Interest Rate Basis is the Eleventh District Cost of Funds Rate, this Note shall be deemed an "Eleventh District Cost of Funds Rate Note." Unless otherwise specified on the face hereof, "Eleventh District Cost of Funds Rate" means: (1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption "11th District" on the display on Moneyline Telerate (or any successor service) on page 7058 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7058") as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 7058, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the "Eleventh District Index") by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or (3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date, the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

(E) Federal Funds Rate Notes. If the Interest Rate Basis is the Federal Funds Rate, this Note shall be deemed a "Federal Funds Rate Note." Unless otherwise specified on the face hereof, "Federal Funds Rate" means: (1) the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15(519) under the caption "Federal Funds (Effective)" and displayed on Moneyline Telerate (or any successor service) on page 120 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 120"); or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 120 or is not so published by 3:00 P.M., New York

City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent prior to 9:00 A.M., New York City time, on that Interest Determination Date; or (4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate in effect on the particular Interest Determination Date.

(F) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the

LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(G) EURIBOR Notes. If the Interest Rate Basis is EURIBOR, this Note shall be deemed a "EURIBOR Note." Unless otherwise specified on the face hereof, "EURIBOR" means: (1) with respect to any Interest Determination Date relating to this EURIBOR Note (a "EURIBOR Interest Determination Date"), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI - The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, as the rate appears on Moneyline Telerate or any successor service, on page 248 (or any other page as may replace that specified page on the service) ("Moneyline Telerate Page 248") as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or (2) if such rate does not appear on Moneyline Telerate Page 248, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or (3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at



approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or (4) if the banks so selected by the Calculation Agent are not quoting as mentioned above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date. "Euro-zone" means the region comprised of member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union.

(H) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(I) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face

hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified on the face hereof; or (7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the

case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Discount Note, if applicable, multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

(d) Amortizing Notes. If this Note is specified on the face hereof as an "Amortizing Note", this Note will bear interest in the same manner as set forth in Section 3(a) above, and payments on principal, premium, if any, and interest will be made as set forth on the face hereof and/or in accordance with Schedule I attached hereto. The Trust will make payments combining principal, premium (if any) and interest, if applicable, on the dates and in the amounts set forth in the table appearing in Schedule I, attached to this Note or in accordance with the formula specified on the face hereof. Payments made hereon will be applied first to interest due and payable hereon and then to the reduction of the unpaid principal amount hereof.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment

Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean an amount equal to the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) multiplied by the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. The Initial Redemption Percentage, if any, applicable to this Note shall decline at each anniversary of the Initial Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100% of the unpaid amount thereof to be redeemed. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS AND AMORTIZING NOTES. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund. If this Note is an Amortizing Note, this Note may pay an amount in respect of both interest and principal amortized over the life of this Note.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to

certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof,

subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.

SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of physical distribution of Notes to be made as provided in the Indenture. The Register maintained by the Registrar will evidence ownership of the Notes, with transfers of ownership effected on the Register and through the Transfer Agent. Transfer of principal, premium (if any) and interest (if any) to the Holder will be the responsibility of the Paying Agent. The selection of any Notes to be redeemed or repaid will be determined by the Indenture Trustee pursuant to the Indenture.

(d) This Note or portion hereof may not be exchanged for Global Notes. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

A-3-26

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE: \_\_\_\_\_

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

\$ \_\_\_\_\_

NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_



SCHEDULE I  
AMORTIZATION TABLE OR FORMULA

A-3-28

STANDARD TRUST TERMS  
WITH RESPECT TO  
PRINCIPAL LIFE INCOME FUNDINGS TRUSTS

DATED AS OF MARCH 5, 2004

TABLE OF CONTENTS

Page ---- ARTICLE 1 DEFINITIONS Section 1.01.  
Definitions.....1  
Section 1.02. Usage of  
Terms.....3 Section  
1.03. Section  
References.....3  
ARTICLE 2 CREATION OF TRUST Section 2.01. Name of the  
Trust.....3 Section  
2.02. Office of the Trustee; Principal Place of  
Business.....3 Section 2.03. Appointment of  
Trustee.....3 Section 2.04.  
Trust Beneficial  
Interest.....4 Section 2.05.  
Issuance of the  
Notes.....4 Section 2.06.  
Acquisition of Funding Agreement and  
Guarantee.....4 Section 2.07. Security Interest in  
the Collateral.....4 Section 2.08.  
Purposes of the  
Trust.....4 Section 2.09.  
Title to  
Collateral.....5 Section  
2.10. Allocation of Trust  
Expenses.....5 Section 2.11.  
Liability.....5  
Section 2.12. Income Tax Treatment; Tax Returns and  
Reports.....5 Section 2.13. Situs of  
Trust.....5 ARTICLE  
3 PAYMENT ACCOUNT Section 3.01. Payment  
Account.....6  
ARTICLE 4 TRUST SECURITIES Section 4.01. Initial  
Ownership.....7  
Section 4.02.  
Notes.....7  
Section 4.03. Registration of Transfer of Trust Beneficial  
Interest.....7 Section 4.04. Persons Deemed Holders of  
Trust Securities.....7 Section 4.05.  
Maintenance of  
Office.....7 Section 4.06.  
Ownership of the Trust Beneficial  
Interest.....7

TABLE OF CONTENTS  
(Continued)

Page	----	ARTICLE 5 REPRESENTATIONS AND WARRANTIES Section 5.01.	8
Trustee.....		Section 5.02. Trust Beneficial	
Owner.....		TRUSTEE Section 6.01. General	9
Authority.....		Section 6.02. General	9
Duties.....		Section 6.03. Specific	14
Duties.....		6.04. Acceptance of Trust and Duties; Limitation on Liability	14
Counsel.....		Section 6.05. Reliance; Advice of Delegation of Authorities and	18
Duties.....		Section 6.06. TERMINATION Section 7.01. Termination Upon the Trust Expiration	18
Date.....		Section 7.02. Termination of Agreement	18
Liquidation.....		Section 7.03. ARTICLE 8 SUCCESSOR AND ADDITIONAL TRUSTEES Section 8.01. Eligibility Requirements for the Trustee	19
Removal of the Trustee.....		Section 8.02. Resignation or Successor	20
Trustee.....		Section 8.03. 8.04. Merger or Consolidation of	20
Trustee.....		Section 8.05. Appointment of Co-Trustee or Separate Trustee	21
Notes.....		Section 8.06. Trustee May Own	21
Rights.....		Section 9.01. Limitations on Voting Meetings of the Trust Beneficial	23
Owner.....		Section 9.02. ARTICLE 10 MISCELLANEOUS PROVISIONS Section 10.01. Limitation on Rights of Securityholders	23
Amendment.....		Section 10.02.	24

TABLE OF CONTENTS  
(Continued)

Notice.....	Page ---- Section 10.03.	25
	Section 10.04. No	
Recourse.....		26
	Section 10.05. No	
Petition.....		26
	Section 10.06. Governing	
Law.....		26
	Section 10.07.	
Severability.....		26
	Section 10.08. Trust Securities Nonassessable and Fully	
Paid.....		26
	Section 10.09 Third-Party	
Beneficiaries.....		26

STANDARD TRUST TERMS

This document constitutes the Standard Trust Terms, dated as of March 5, 2004, which will be incorporated by reference in the Trust Agreement (specified in Section A of the Omnibus Instrument, as defined in the Indenture (as defined below)) between U.S. Bank Trust National Association, a national banking association, as trustee, (the "Trustee"), and GSS Holdings II, Inc., a Delaware corporation, as trust beneficial owner (the "Trust Beneficial Owner").

These Standard Trust Terms shall be of no force and effect unless and until incorporated by reference in, and then only to the extent not modified by, such Trust Agreement.

The following terms and provisions shall govern the activities of the Trust (as defined in the Indenture) subject to contrary terms and provisions expressly adopted in such Trust Agreement, which contrary terms shall be controlling.

WITNESSETH:

WHEREAS, the Trustee and the Trust Beneficial Owner desire to establish a trust for the purpose of issuing Notes (as defined in the Indenture) to investors which will be secured, and payments with respect to which will be funded, solely by the assets held in the Trust, and the proceeds of which will be used to purchase the Funding Agreement (as defined in the Indenture), issued by Principal Life (as defined in the Indenture), the payment obligations of which will be fully and unconditionally guaranteed by the Guarantee (as defined in the Indenture).

NOW, THEREFORE, it being the intention of the parties hereto that the Trust Agreement (as defined below) constitutes the governing instrument of the Trust, the Trustee and the Trust Beneficial Owner agree as follows:

ARTICLE 1  
DEFINITIONS

Section 1.01 Definitions. All capitalized terms not otherwise defined herein will have the meanings set forth in the Indenture. The following terms have the meanings set forth below:

"Corporate Trust Office" means the office of the Trustee located at 100 Wall Street, 16th Floor, New York, New York 10005.

"Funding Agreement Event of Default" means an "Event of Default" as defined in the Funding Agreement.

"Indenture" means that certain Indenture dated as of the date specified in the Omnibus Instrument, by and among the Trust and the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent, as may be amended, modified or supplemented from time to time.

"Payment Account" means each segregated non-interest-bearing corporate trust account for the Trust maintained by the Trustee in its trust department in which all amounts paid to the Trustee in respect of the Collateral will be held and from which the Trustee shall make payments pursuant to Section 3.01(b) and Article 7, to the extent such amounts are paid to the Trustee and deposited in the Payment Account.

"Registrar" has the meaning specified in Section 4.03.

"Securities Register" has the meaning specified in Section 4.03.

"Securityholder" means each Person in whose name any Trust Security is registered in the Securities Register or Register.

"Standard Trust Terms" means these Standard Trust Terms, dated as of March 5, 2004.

"Standing Order" has the meaning set forth in Section 3.01(d).

"Trust Agreement" means that certain Trust Agreement dated as of the date specified in the Omnibus Instrument, by and between the Trustee and the Trust Beneficial Owner, as may be amended, modified or supplemented from time to time, which incorporates by reference these Standard Trust Terms.

"Trust Beneficial Interest" means the undivided beneficial interest in the assets held in the Trust, having such rights as provided for in the Trust Agreement.

"Trust Beneficial Owner" means the Person identified as the "Trust Beneficial Owner" in the preamble to the Trust Agreement, in its capacity as the sole beneficial owner of the Trust.

"Trust Expenses" means any liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to the Trust.

"Trust Expiration Date" means the date specified in the Pricing Supplement or such earlier date as all of the outstanding Notes are redeemed or repaid in full by the Trust.

"Trust Security" means a Note or the Trust Beneficial Interest.

"Trustee" means the party named as such in the preamble to the Trust Agreement and shall also include its permitted successors and assigns, or any successor Trustee appointed, acting not in its individual capacity but solely as Trustee under the Trust Agreement. If there shall be at any time more than one Trustee hereunder, "Trustee" shall mean each such Trustee.

Section 1.02 Usage of Terms. With respect to all terms used in these Standard Trust Terms, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to "writing" include printing, typing, lithography, facsimile, electronic transmissions and other means of reproducing words in a visible form; references to agreements and other contractual instruments include all subsequent amendments hereto or changes herein entered into in accordance with their respective terms and not prohibited by the Trust Agreement; references to Persons include their permitted successors and assigns; and the terms "include" or "including" mean "include without limitation" or "including without limitation."

Section 1.03 Section References. All references to Articles, sections, paragraphs, subsections, exhibits and schedules shall be to such portions of these Standard Trust Terms unless otherwise expressly provided.

## ARTICLE 2 CREATION OF TRUST

Section 2.01 Name of the Trust. The Trust created under the Trust Agreement shall have the name specified in the Omnibus Instrument. The Trust's activities shall be conducted under the name of the Trust.

Section 2.02 Office of the Trustee; Principal Place of Business. The principal office of the Trust shall be in care of the Trustee at the Corporate Trust Office, or such other address in the State of New York as the Trustee may designate by written notice to the Trust Beneficial Owner, the Indenture Trustee and the Ratings Agencies.

Section 2.03 Appointment of Trustee. The parties to the Trust Agreement hereby appoint the Trustee as trustee of the Trust, to have all rights, powers and duties set forth in the Trust Agreement and in accordance with the applicable law with respect to accomplishing the purposes of the Trust.



Section 2.04 Trust Beneficial Interest. Contemporaneously with the execution and delivery of the Trust Agreement, the Trustee, on behalf of the Trust, shall cause the Trust Beneficial Owner to be recorded as the registered owner of the Trust Beneficial Interest on the Securities Register, against payment of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes) by the Trust Beneficial Owner to, or to an account at the direction of, the Trustee.

Section 2.05 Issuance of the Notes. Promptly following the execution and delivery of the Trust Agreement, the Trust shall, in accordance with the Indenture, issue and deliver or cause to be issued and delivered the aggregate principal amount of the Notes specified in the Pricing Supplement or supplement to the Indenture against payment therefor. The Holders of the Notes shall only have a right to receive payments from the Collateral as described in the Indenture and shall have no right to receive payments under the assets held in any other trust organized under the Program.

Section 2.06 Acquisition of Funding Agreement and Guarantee. Contemporaneously with the issuance and delivery of the Notes, the Trust shall acquire the Funding Agreement and the Guarantee.

Section 2.07 Security Interest in the Collateral. Contemporaneously with the issuance and delivery of the Notes, pursuant to the Indenture, the Trust shall collaterally assign the Funding Agreement and Guarantee to the Indenture Trustee, for the benefit of the Holders of the Notes, and grant to the Indenture Trustee, for the benefit of the Holders of the Notes, a first priority perfected security interest in and to the Collateral, including, without limitation, the Funding Agreement purchased by the Trust and the Guarantee.

Section 2.08 Purposes of the Trust. The exclusive purposes and functions of the Trust are (a) to issue and sell the Notes and the Trust Beneficial Interest, (b) to use the proceeds of the sale of the Notes and the Trust Beneficial Interest to acquire the Funding Agreement, (c) to collaterally assign and grant a security interest in the Funding Agreement in favor of the Indenture Trustee, (d) to acquire the Guarantee and to collaterally assign and grant a security interest in the Guarantee in favor of the Indenture Trustee, (e) to pay amounts due in respect of the Notes and the Trust Beneficial Interest, (f) to enter into the agreements and to take such actions as the Trustee has the power and authority to take pursuant to Section 6.01, as applicable, and (g) to engage in those activities necessary, advisable or incidental thereto (such as registering the transfer of the Trust Securities).

Section 2.09 Title to Collateral. Legal title to the Collateral shall be vested at all times in the Trust as a separate legal entity and shall be held and administered by the Trustee for the benefit of the Trust and each Securityholder, except that with respect to the Funding Agreement and the Guarantee collaterally assigned to the Indenture Trustee, legal title to the Funding Agreement and the Guarantee shall be recorded at all times in the books and records of Principal Life and PFG, respectively, in the name of the Indenture Trustee, for the benefit of the Holders.

Section 2.10 Allocation of Trust Expenses. Any costs and expenses of the Trust shall be paid by Principal Life pursuant to the applicable Expense and Indemnity Agreement to the extent provided therein.

Section 2.11 Liability. None of the Trustee or the Securityholders shall have any personal liability for any liability or obligation of the Trust.

Section 2.12 Income Tax Treatment; Tax Returns and Reports.

(a) The Trust and the Trust Beneficial Interest Owner agree, and by acceptance of a beneficial interest in a Note each holder of a beneficial interest in a Note agrees, for U.S. federal, state and local income and franchise tax purposes, to (i) disregard the Trust and (ii) treat such Note as debt of Principal Life.

(b) The Trustee shall prepare, file and sign or cause to be prepared, filed and signed, consistent with the treatment of the Trust as disregarded, all federal, state and local income tax and information returns and reports required to be filed with respect to the Trust and the Notes under any applicable federal, state or local tax statute or any rule or regulation under any of them. The Trustee shall keep copies or cause copies to be kept of any such tax and information returns and reports required to be filed.

Section 2.13 Situs of Trust. The Trust shall be located in the jurisdiction set forth in the Trust Agreement. All bank accounts maintained by the Trustee on behalf of the Trust shall be located in such jurisdiction except that those accounts established under the Indenture shall be maintained with the Indenture Trustee in accordance with the Indenture. The Trust shall not have any employees in any jurisdiction other than in such jurisdiction. Except as set forth in the Program Documents, payments will be received by the Trust only in such jurisdiction and payments will be made by the Trust only from such jurisdiction.

ARTICLE 3  
PAYMENT ACCOUNT

Section 3.01 Payment Account.

(a) On the Original Issue Date, the Trustee shall establish a Payment Account. The Trustee and any agent of the Trustee shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with the Trust Agreement and the Indenture. Subject to the Indenture, all monies or other property received by the Trustee on behalf of the Trust in respect of the Collateral will be deposited in the Payment Account. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Trustee in the Payment Account for the exclusive benefit of the Trust Beneficial Owner, subject to the security interest in the Collateral in favor of the Indenture Trustee on behalf of the Holders of the Notes, and for distribution by the Trustee as provided in the Trust Agreement, including (and subject to) any priority of payments provided for in the Trust Agreement.

(b) Except for payments made on the Trust Expiration Date or otherwise pursuant to Section 7.03 and subject to Section 3.01(a), all monies and other property deposited into the Payment Account shall be distributed by the Trust as follows:

first, to the Indenture Trustee for the payment of all amounts then due and unpaid upon the Notes, if any, in accordance with the Indenture; and

second, to the Trust Beneficial Owner all of the amounts that would be payable under clause first of Section 5.02 of the Indenture to the Trust Beneficial Owner if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes).

Any remaining monies and other property deposited into the Payment Account shall be distributed ratably in proportion to their original principal amounts to the Holders last noted in the Register as the Holders of the Notes and the Trust Beneficial Owner (as if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes)).

(c) The Trustee shall deposit in the Payment Account, promptly upon receipt, any payments received with respect to the Collateral. Amounts held in the Payment Account shall not be invested by the Trustee pending the distribution of such amounts to cover the Trust's obligations on the Notes or the Trust Beneficial Interest.

(d) Notwithstanding anything herein to the contrary, the Trustee, on behalf of the Trust, shall issue a standing order (the "Standing Order") to the Indenture Trustee pursuant to which the Indenture Trustee shall distribute all amounts due and unpaid under

Section 3.01(b). For so long as (i) the Trustee, on behalf of the Trust, has not rescinded the Standing Order and (ii) the Indenture Trustee is able to, and does, comply with the Standing Order, the Trustee will not be required to establish a Payment Account in accordance with Section 3.01.

ARTICLE 4  
TRUST SECURITIES

Section 4.01 Initial Ownership. Upon the creation of the Trust, the Trust Beneficial Owner shall be the sole beneficial owner of such Trust.

Section 4.02 Notes.

The Notes will be issued pursuant to and be governed by the Indenture.

Section 4.03 Registration of Transfer of Trust Beneficial Interest.

(a) The Trustee or its agent (in this capacity, the "Registrar") shall maintain a register or registers for the Trust for the purpose, subject to Section 4.06, of registering the transfer of the Trust Beneficial Interest and Notes (a "Securities Register").

(b) The Registrar shall not be required to register the transfer of the Trust Beneficial Interest in any manner inconsistent with the terms of the Trust Agreement or the Indenture.

Section 4.04 Persons Deemed Holders of Trust Securities. The Trustee and the Registrar shall treat the Person in whose name any Trust Beneficial Interest is registered as the owner of such Trust Beneficial Interest for all purposes whatsoever, and none of the Trustee and the Registrar shall be bound by any notice to the contrary. The Trustee shall treat the Person determined in accordance with Section 2.11 of the Indenture as the owner of the applicable Note(s) for all purposes whatsoever, and the Trustee shall not be bound by any notice to the contrary.

Section 4.05 Maintenance of Office. Subject to the provisions of the Indenture, the Trustee shall maintain an office or offices where notices and demands to or upon the Trustee in respect of the Trust Securities may be served. The Trustee initially designates its Corporate Trust Office as the office for such purposes. The Trustee shall give prompt written notice to the Trust Beneficial Owner and the Indenture Trustee of any change in the location of the register or any office or agency.

Section 4.06 Ownership of the Trust Beneficial Interest. On the Original Issue Date, the Trust Beneficial Owner shall acquire and, thereafter, retain beneficial and record ownership of the Trust Beneficial Interest. The Trust Beneficial Interest shall not be certificated. To the fullest extent permitted by law, any attempted transfer of the Trust Beneficial Interest shall be void.

ARTICLE 5  
REPRESENTATIONS AND WARRANTIES

Section 5.01 Trustee. The Trustee represents and warrants for the benefit of the Securityholders as follows:

(a) it is a national banking association duly organized, validly existing and in good standing under the laws of the United States and it is a "bank" within the meaning of Section 581 of the Code;

(b) it is a "United States person" within the meaning of Section 7701(a)(30) of the Code;

(c) it has full corporate or other power, authority and legal right to execute, deliver and perform its obligations under the Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of the Trust Agreement;

(d) the Trust Agreement has been duly authorized, executed and delivered by it and constitutes the valid and legally binding agreement of it enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity;

(e) neither the execution or delivery by it of the Trust Agreement, nor the performance by it of its obligations under the Trust Agreement, will (i) violate its organizational documents, (ii) violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties or assets held in the Trust pursuant to the provisions of, any indenture, mortgage, credit agreement, license or other agreement or instrument to which it is a party or by which it is bound which would materially and adversely affect the Trust, or (iii) violate any law, governmental rule or regulation of the United States governing the banking, trust or general powers of it or any order, judgment or decree applicable to it;

(f) the authorization, execution or delivery by it of the Trust Agreement and the consummation of any of the transactions by it contemplated by the Trust Agreement do not require the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency; and

(g) there are no proceedings pending or, to the best of its knowledge, threatened against or affecting it in any court or before any governmental authority, agency or arbitration board or tribunal which, individually or in the aggregate, would materially and adversely affect the Trust or would question the right, power and authority of it to enter into or perform its obligations under the Trust Agreement.

Section 5.02 Trust Beneficial Owner. The Trust Beneficial Owner hereby represents and warrants that, to the fullest extent permitted by law, it has irrevocably waived any right or interest it may have under the Trust Agreement, by operation of law or equity, to direct or otherwise require the Trustee to initiate or consent to any bankruptcy, insolvency or receivership proceedings, it being expressly understood that any such action by the Trustee shall be undertaken or refrained from, in the Trustee's sole and absolute discretion, without regard to any rights or interests of the Trust Beneficial Owner.

ARTICLE 6  
TRUSTEE

Section 6.01 General Authority.

(a) The Trustee shall conduct the affairs of the Trust in accordance with the terms of the Trust Agreement. Subject to the limitations set forth in Section 6.01(b), the Trustee shall have the power and authority to act on behalf of the Trust, with respect to the following matters:

(i) to execute and deliver the Notes and the Trust Beneficial Interest in accordance with the Trust Agreement and the Indenture;

(ii) to cause the Trust to perform the Trust Agreement and to enter into, and to execute, deliver and perform on behalf of itself, the Program Documents to which it is a party and such other certificates, other documents or agreements as may be necessary, contemplated by or desirable in connection with the purposes and function of the Trust or any of such Program Documents;

(iii) subject to the Indenture, to purchase, receive and maintain custody of the Funding Agreement and to exercise all of the rights, powers and privileges of an owner or policyholder of the Funding Agreement;

(iv) subject to the Indenture and the Guarantee, to receive and maintain custody of the Guarantee and to exercise all of the rights, powers and privileges of a beneficiary under the Guarantee;

(v) to grant to the Indenture Trustee a first priority perfected security interest in the Collateral and to collaterally assign the rights, title and interest of the Trust in such Collateral to the Indenture Trustee for the benefit of the Holders and to seek release of such security interest upon payment in full of all amounts required to be paid with respect to the Notes pursuant to the terms and conditions of the Notes or the Indenture;

(vi) to establish the Payment Account;

(vii) subject to Section 4.06, to cause any transfer of the Trust Beneficial Interest to be registered in accordance with the Trust Agreement;

(viii) to send notices regarding the Trust Securities, the Funding Agreement and the Guarantee to Principal Life, PFG, the Indenture Trustee, the Ratings Agencies, the Trust Beneficial Owner and the Relevant Agents in accordance with the Funding Agreement, the Guarantee, the Distribution Agreement and the Trust Agreement;

(ix) to take all actions necessary or appropriate to enable the Trust to comply with Section 2.12 regarding income tax treatment, tax returns and information reporting;

(x) after the occurrence of a Funding Agreement Event of Default actually known to a Responsible Officer of the Trustee, subject to the Indenture, to take any action as it may from time to time determine (based solely upon the advice of counsel) is necessary or advisable to give effect to the terms of the Trust Agreement and to protect and conserve the Collateral for the benefit of each Securityholder (without consideration of the effect of any such action on any particular Securityholder) and, within five Business Days after the occurrence of a Funding Agreement Event of Default actually known to a Responsible Officer of the Trustee, to give notice thereof to the Trust Beneficial Owner and the Indenture Trustee;

(xi) to the extent permitted by the Trust Agreement, to participate in the winding up of the affairs of and liquidation of the Trust; and

(xii) subject to the Indenture, to take any action and to execute any documents on behalf of the Trust, incidental to the foregoing as the Trustee may from time to time determine (based on the advice of counsel) is necessary or advisable to give effect to the terms of the Trust Agreement for the benefit of each Securityholder (without consideration of the effect of any such action on any particular Securityholder).

It is expressly understood and agreed that the Trustee shall be entitled to engage outside counsel, independent accountants and other experts appointed with due care to assist the Trustee in connection with the performance of its duties and powers set forth in this Section 6.01(a), including, without limitation, the preparation of all tax reports and returns, securities law filings, certificates, reports, opinions, notices or any other documents. The Trustee shall be entitled to rely conclusively on the advice of such counsel, accountants and other experts in the performance of all its duties under the Trust

Agreement and shall have no liability for any documents prepared by such counsel, accountants or experts or any action or inaction taken pursuant to the advice of such counsel, accountants or experts. Any expenses of such counsel, accountants and experts shall be paid by Principal Life in accordance with the applicable Expense and Indemnity Agreement to the extent provided therein.

(b) So long as the Trust Agreement remains in effect, the Trust (and the Trustee acting on behalf of the Trust) shall not undertake any business, activity or transaction except as expressly provided for or contemplated by the Trust Agreement or the Indenture. In particular, the Trust shall not, except as otherwise contemplated by the Indenture:

(i) sell, transfer, exchange, assign, lease, convey or otherwise dispose of any assets held by the Trust (owned as of the date of the Trust Agreement or thereafter acquired), including, without limitation, any portion of the Collateral, except as expressly permitted under the Indenture;

(ii) incur or otherwise become liable, directly or indirectly, for any Indebtedness or Contingent Obligation except for the Notes issued pursuant to the Indenture and the transactions contemplated under the Indenture;

(iii) engage in any business or activity other than in connection with, or relating to, (a) the performance of the Trust Agreement and the execution, delivery and performance of any documents (other than the Trust Agreement), including the Program Documents, relating to the Notes issued under the Indenture and the transactions contemplated thereby, and (b) the issuance of the Notes pursuant to the Indenture;

(iv) (a) permit the validity or effectiveness of the Indenture or any grant of security interest in or assignment for collateral purposes of the Collateral to be impaired, or permit a Lien created under the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations under any document or agreement assigned to the Indenture Trustee, except as may be expressly permitted under the Indenture, (b) create, incur, assume or permit any Lien or other encumbrance (other than a Lien created under the Indenture) on any of its properties or assets owned or thereafter acquired, or any interest therein or the proceeds thereof, or (c) permit a Lien created under the Indenture not to constitute a valid first priority perfected security interest in the Collateral;

(v) amend, modify or fail to comply with any material provision of the Trust Agreement except for any amendment or modification of the Trust Agreement expressly permitted thereunder;



(vi) own any subsidiary or lend or advance any funds to, or make any investment in, any Person, except for an investment in the Funding Agreement or the investment of any funds held by the Indenture Trustee, the Paying Agent, or the Trustee as provided in the Indenture or the Trust Agreement;

(vii) directly or indirectly declare or make any distribution or other payment to, or redeem or otherwise acquire or retire for value the interests of, the Trust Beneficial Owner if any amount under the Notes is due and unpaid, or directly or indirectly redeem or otherwise acquire or retire for value any Indebtedness or Contingent Obligation other than the Notes;

(viii) exercise any rights with respect to the Collateral except at the written direction of, or with the prior written approval of, the Indenture Trustee;

(ix) cause or, to the fullest extent permitted by law, permit the sale or other transfer of all or a portion of the Trust Beneficial Interest, or cause or, to the fullest extent permitted by law, permit the creation, incurrence, assumption or existence of any Lien on, all or a portion of the Trust Beneficial Interest;

(x) become an "investment company" or come under the "control" of an "investment company," as such terms are defined in the Investment Company Act;

(xi) enter into any transaction of merger or consolidation or liquidate or dissolve itself (or, to the fullest extent permitted by law, suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all the business or assets of, or any stock or other evidence of beneficial ownership of, any other Person;

(xii) take any action that would cause it not to be treated as a disregarded or treated as a grantor trust (assuming it were not disregarded) for United States federal income tax purposes;

(xiii) have any subsidiaries, employees or agents other than the Trustee and other persons necessary to conduct its business and enter into transactions contemplated under the Program Documents;

(xiv) have an interest in any bank account other than (a) those accounts required under the Program Documents, and (b) those accounts expressly permitted by the Indenture Trustee; provided that any interest therein shall be charged or otherwise secured in favor of the Indenture Trustee;

(xv) permit any Affiliate, employee or officer of Principal Life or PFG or any agent appointed under the Distribution Agreement to be a trustee of the Trust;

(xvi) issue Notes under the Indenture unless (a) the Trust has purchased or will simultaneously purchase the Funding Agreement from Principal Life to secure such Notes, (b) Principal Life has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect the granting of a security interest in, and the making of an assignment for collateral purposes of, the Funding Agreement by the Trust, to the Indenture Trustee, (c) PFG has issued the Guarantee to the Trust, which the Trust has collaterally assigned to the Indenture Trustee on behalf of the Holder of Notes and in which the Trust has granted a security interest or will simultaneously grant a security interest to the Indenture Trustee on behalf of the Holders of Notes (and PFG has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect such collateral assignment and security interest) and (d) the Trust has taken such other steps as may be necessary to cause the grant of security interest in, and assignment for collateral purposes of, the Collateral to the Indenture Trustee to be perfected for purposes of the UCC or effective against the Trust's creditors and subsequent purchasers of the Collateral pursuant to insurance or other applicable law;

(xvii) commingle the assets of the Trust with assets of any Affiliates (including any other trust organized under the Program), or guarantee any obligation of any Affiliates (including any other trust organized under the Program); or

(xviii) maintain any joint account with any Person, become a party, whether as co-obligor or otherwise, to any agreement to which any Person is a party (other than in respect of the Program Documents), or become liable as a guarantor or otherwise with respect to any Indebtedness or contractual obligation of any Person.

(c) The Trust and the Trustee acting on behalf of the Trust shall not, notwithstanding any other provision of the Trust Agreement, take any action that would cause the Trust not to be disregarded or treated as a grantor trust (assuming it were not disregarded) for U.S. federal income tax purposes.

(d) The Trustee shall, based on the advice of counsel, defend against all claims and demands of all Persons at any time claiming any Lien on any of the assets of the Trust adverse to the interest of the Trust or any Securityholder, other than the security interests in the Collateral granted in favor of the Indenture Trustee for the benefit of each Holder of the Notes pursuant to the Indenture.

(e) If and for so long as the Funding Agreement and the Guarantee are held by the Trustee for the benefit of the Trust, the Trustee shall not (i) waive any default under the Funding Agreement or Guarantee or (ii) consent to any amendment, modification or termination of the Funding Agreement or the Guarantee, without, in each case, obtaining the prior approval of the Indenture Trustee in accordance with the Indenture and an opinion of counsel experienced in such matters to the effect that any such action shall not cause the Trust not to be disregarded or treated as a grantor trust (assuming it were not disregarded) for U.S. federal income tax purposes.

(f) The Trustee is authorized and directed to conduct the affairs of the Trust and to operate the Trust (i) so that the Trust will not become required to register as an "investment company" under the Investment Company Act, and (ii) so that the Trust will not fail to be disregarded or treated as a grantor trust (assuming it were not disregarded) for U.S. federal income tax purposes. In connection with the preceding sentence, the Trustee shall have no duty to determine whether any action it takes complies with the preceding sentence and shall be entitled to rely conclusively on an opinion of counsel with respect to any such matters.

Section 6.02 General Duties. It shall be the duty of the Trustee to discharge, or cause to be discharged, all of its responsibilities pursuant to the terms of the Trust Agreement, or any other documents or instruments to which it is a party, and to administer the Trust, in accordance with the provisions of the Trust Agreement and the other Program Documents and any other documents or instruments to which the Trust is a party.

#### Section 6.03 Specific Duties.

(a) The Trustee undertakes to perform only such duties as are specifically set forth in the Trust Agreement and as it may be directed from time to time by the Trust Beneficial Owner and the Indenture Trustee in accordance with the terms of the Trust Agreement and the Indenture.

(b) The Trustee agrees that it will not manage, control, use, sell, dispose of or otherwise deal with the Collateral except as expressly required or permitted by the terms of the Trust Agreement and the Indenture.

Section 6.04 Acceptance of Trust and Duties; Limitation on Liability. The Trustee accepts the trust created by the Trust Agreement and agrees to perform its duties under the Trust Agreement with respect to the same, but only upon the terms of the Trust Agreement. No implied covenants or obligations shall be read into the Trust Agreement. The Trustee shall not be liable under the Trust Agreement under any circumstances or for any action or failure to act, except for (i) its own willful misconduct, bad faith or negligence or (ii) the inaccuracy of any representation or warranty contained in the Trust Agreement expressly made by it. In particular (but without limitation), subject to the exceptions set forth in the preceding sentence:

(a) the Trustee shall not be liable for any error of judgment made in good faith by any of its responsible officers, unless such error of judgment constitutes negligence;

(b) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written instructions of the Trust Beneficial Owner or the Indenture Trustee or pursuant to the advice of counsel, accountants or other experts selected by it in good faith, so long as such action or omission is consistent with the terms of the Trust Agreement and the Indenture;

(c) no provision of the Trust Agreement shall require the Trustee to expend or risk personal funds or otherwise incur any financial liability in the performance of any of its rights or powers hereunder if the Trustee has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured or provided to it;

(d) under no circumstances shall the Trustee be liable for indebtedness or other obligations evidenced by or arising under the Trust Agreement, the Funding Agreement, the Guarantee or any related document, including the principal of and interest on the Notes and payments on the Trust Beneficial Interest;

(e) the Trustee shall not be responsible for, or in respect of, the validity or sufficiency of the Trust Agreement or any related document or for the due execution of the Trust Agreement by any party (except by the Trustee itself) or for the form, character, genuineness, sufficiency, value or validity of any of the Collateral, other than, in the case of the Trustee, the execution of any certificate;

(f) the Trustee shall not be liable for any action, inaction, default or misconduct of the Indenture Trustee or any Paying Agent under the Indenture, the Notes or any related documents or otherwise, and the Trustee shall not have any obligation or liability to perform the obligations of the Trust under the Trust Agreement or any related document or under any federal, state, foreign or local tax or securities law, in each case, that are required to be performed by other Persons, including the Indenture Trustee under the Indenture;

(g) the Trustee shall not be liable for any action, inaction, default or misconduct of Principal Life or PFG, and the Trustee shall not have any obligation or liability to perform the obligations of Principal Life under the Funding Agreement or PFG under the Guarantee or any related documents;

(h) the Trustee shall not be under any obligation to exercise any of the rights or powers vested in it by the Trust Agreement, or to institute, conduct or defend any litigation under the Trust Agreement or otherwise or in relation to the Trust Agreement or

any related document, at the request, order or direction of any Person unless such Person has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred by the Trustee. The right of the Trustee to perform any discretionary act enumerated in the Trust Agreement or in any related document shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of any such act;

(i) except as expressly provided in the Trust Agreement in accepting the trusts created by the Trust Agreement the Trustee acts solely as trustee under the Trust Agreement and not in its individual capacity, and all persons having any claim against the Trustee by reason of the transactions contemplated by the Trust Agreement shall look only to the Trust's property for payment or satisfaction thereof;

(j) the Trustee shall not have any responsibility or liability for or with respect to the genuineness, value, sufficiency or validity of any Collateral, and the Trustee shall in no event assume or incur any liability, duty or obligation to the Trust Beneficial Owner or any other Person other than as expressly provided for in the Trust Agreement;

(k) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note or other paper or document;

(l) every provision of the Trust Agreement relating to the Trustee shall be subject to the provisions of this Article 6;

(m) except in accordance with the written instructions furnished by the Trust Beneficial Owner or as provided in the Trust Agreement, the Trustee shall have no duty (i) to see to any recording or filing of any document, (ii) to confirm or verify any financial statements of the Trust Beneficial Owner or the Indenture Trustee, (iii) to inspect the Trust Beneficial Owner's or the Indenture Trustee's books and records at any time or (iv) to see to the payment or discharge of any tax, assessment or other governmental charge or any lien or encumbrance of any kind owing with respect to, assessed or levied against any part of the Trust, except to the extent the Trustee has received funds, on behalf of the Trust, pursuant to the applicable Expense and Indemnity Agreement from Principal Life in satisfaction of any such tax, assessment or other governmental charge or any lien or encumbrance of any kind and in accordance with payment or transfer instructions provided by Principal Life;

(n) the Trustee shall have no duty or obligation to manage, control, use, sell, dispose of or otherwise deal with the Trust or to otherwise take or refrain from taking any action under the Trust Agreement, except as expressly required by the terms of the Trust Agreement, or as expressly provided in written instructions from the Trust Beneficial Owner, and in no event shall the Trustee have any implied duties or obligations under the

Trust Agreement; the Trustee nevertheless agrees that it will, at its own cost and expense, promptly take all action as may be necessary to discharge any liens on any part of the property of the Trust which result from claims against the Trustee personally that are not related to the ownership or the administration of the property of the Trust or the transactions contemplated by the Program Documents;

(o) the Trustee shall not be required to take any action under the Trust Agreement if the Trustee shall reasonably determine or shall have been advised by counsel that such action is contrary to the terms of the Trust Agreement or is otherwise contrary to law;

(p) the Trustee may fully rely upon and shall have no liability in connection with calculations or instructions forwarded to the Trustee by the Trust Beneficial Owner or the Indenture Trustee, nor shall the Trustee have any obligation to furnish information to any Trust Beneficial Owner or other Person if it has not received such information as it may need from the Trust Beneficial Owner, or the Indenture Trustee or any other Person;

(q) the Trustee shall not be liable with respect to any act or omission in good faith in accordance with the advice or direction of the Trust Beneficial Owner or the Indenture Trustee. Whenever the Trustee is unable to decide between alternative courses of action permitted or required by the terms of the Trust Agreement, or is unsure as to the application, intent, interpretation or meaning of any provision hereof, the Trustee may give notice (in such form as shall be appropriate under the circumstances) to the Trust Beneficial Owner requesting instructions as to the course of action to be adopted, and, to the extent the Trustee acts in good faith in accordance with any such instruction received, the Trustee shall not be liable on account of such action to any Person. If the Trustee shall not have received appropriate instructions within ten days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances), it may, but shall be under no duty to, take or refrain from taking such action which is consistent, in its view, with the Trust Agreement and as it shall deem to be in the best interest of the relevant Trust Beneficial Owner, and the Trustee shall have no liability to any Person for such action or inaction;

(r) in no event whatsoever shall the Trustee be personally liable for any representation, warranty, covenant, agreement, indebtedness or other obligation of the Trust; and

(s) the Trustee shall incur no liability if, by reason of any provision of any present or future law or regulation thereunder, or by any force majeure event, including but not limited to natural disaster, war or other circumstances beyond its control, the Trustee shall be prevented or forbidden from doing or performing any act or thing which the terms of the Trust Agreement provide shall or may be done or performed.

Section 6.05 Reliance; Advice of Counsel.

(a) The Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper reasonably believed by it in good faith to be genuine and signed by the proper party or parties. The Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the manner of ascertainment of which is not specifically prescribed in the Trust Agreement, the Trustee may for all purposes of the Trust Agreement rely on a certificate, signed by the president or any vice president or by the treasurer or any assistant treasurer or the secretary or any assistant secretary of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to the Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon.

(b) In the exercise or administration of the Trust, the Trustee (i) may act directly or, at the expense of the Trust, through agents or attorneys pursuant to agreements entered into with any of them, and the Trustee shall not be liable for the action, inaction, default or misconduct of such agents or attorneys if such agents or attorneys shall have been selected by the Trustee in good faith and with reasonable care, and (ii) may consult with counsel, accountants and other skilled persons to be selected in good faith and with reasonable care and employed by it, and it shall not be liable for anything done, suffered or omitted to be done in good faith by it in accordance with the written opinion or advice of any such counsel, accountants or other skilled persons.

Section 6.06 Delegation of Authorities and Duties. The Trustee delegates to the Indenture Trustee all duties required to be performed by the Indenture Trustee pursuant to the terms of the Trust Agreement and the Indenture. The Trustee undertakes no responsibility for the performance, or non-performance, of any duties delegated to the Indenture Trustee under the Trust Agreement.

ARTICLE 7  
LIQUIDATION AND TERMINATION

Section 7.01 Termination Upon the Trust Expiration Date. Unless earlier terminated, the Trust shall terminate on the Trust Expiration Date.

Section 7.02 Termination of Agreement. The Trust Agreement and the Trust created and continued thereby shall terminate upon the latest to occur of the following: (a) a distribution by the Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 7.03 of all amounts required to be distributed under the Trust Agreement upon the final payment of the Trust Securities; (b) the payment of, or

reasonable provision for payment of, all expenses and other liabilities owed by the Trust; and (c) the discharge of all administrative duties of the Trustee including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

Section 7.03 Liquidation. On the Trust Expiration Date, the remaining Collateral and any other assets held in the Trust shall be liquidated and distributed as follows: (i) the Trust shall first pay all amounts due and unpaid on the Notes, if any, in accordance with the Indenture, (ii) the Trust shall then pay any other claims, including expenses relating to such liquidation to the extent not paid, or reasonably provided for, pursuant to the applicable Expense and Indemnity Agreement, and (iii) the Trust shall then pay to the Trust Beneficial Owner all of the amounts that would be payable under clause first of Section 5.02 of the Indenture to the Trust Beneficial Owner if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes). Any remaining monies and other property shall be paid ratably in proportion to their original principal amounts to the Holders last noted in the Register as the Holders of the Notes and the Trust Beneficial Owner (as if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes) and as if each such Holder continued to hold its Notes after all amounts due on such Notes under the Indenture have been paid).

#### ARTICLE 8 SUCCESSOR AND ADDITIONAL TRUSTEES

Section 8.01 Eligibility Requirements for the Trustee. The Trustee shall at all times (a) be a Person organized and doing business under the laws of the United States or the State of New York, (b) be authorized to exercise corporate trust powers, (c) have a combined capital and surplus of at least \$50,000,000 and be subject to supervision or examination by Federal or State authorities, (d) have (or have a parent which has) a rating of at least Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., (e) be a "bank" within the meaning of Section 581 of the Code and (f) be a "United States person" within the meaning of Section 7701(a)(30) of the Code. In addition, the Trustee shall be an entity with its Corporate Trust Office in the State of New York. If the Trustee shall publish reports of condition at least annually, pursuant to applicable law or to the requirements of the aforesaid supervising or examining authority, then for the purpose of this Section 8.01, the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 8.01, the Trustee shall resign immediately in the manner and with the effect specified in Section 8.02.



Section 8.02 Resignation or Removal of the Trustee. The Trustee may at any time resign and be discharged from its duties under the Trust Agreement and the Trust created by the Trust Agreement by giving written notice thereof to the Trust Beneficial Owner and the Indenture Trustee at least 60 days before the date specified in such instrument. Upon receiving such notice of resignation, the Trust Beneficial Owner shall promptly appoint a successor Trustee meeting the qualifications set forth in Section 8.01 by written instrument, in duplicate, one copy of which instrument shall be delivered to each of the resigning Trustee, the successor Trustee, any remaining Trustees, the Indenture Trustee and Principal Life. If no successor Trustee shall have been so appointed and have accepted appointment within 90 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If at any time the Trustee shall cease to be eligible in accordance with the provisions of Section 8.01 and shall fail to resign after written request therefor by the Trust Beneficial Owner and the Indenture Trustee, or if at any time the Trustee shall be legally unable to act or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Trust Beneficial Owner and the Indenture Trustee may remove such Trustee. If the Trust Beneficial Owner and the Indenture Trustee shall remove the Trustee under the authority of the immediately preceding sentence, the Trust Beneficial Owner shall promptly appoint a successor Trustee meeting the qualification requirements of Section 8.01 by (i) the execution of a written instrument, one copy of which instrument shall be delivered to each of the outgoing Trustee so removed, the successor Trustee, the Indenture Trustee and Principal Life and (ii) the payment of all fees and expenses owed to the outgoing Trustee.

Any resignation or removal of the Trustee and appointment of a successor Trustee pursuant to any of the provisions of this Section 8.02 shall not become effective until all fees and expenses, including any indemnity payments, due to the outgoing Trustee have been paid and until acceptance of appointment by the successor Trustee pursuant to Section 8.03.

Section 8.03 Successor Trustee. Any successor Trustee appointed pursuant to Section 8.02 shall execute, acknowledge and deliver to the Trust Beneficial Owner, the Indenture Trustee and the predecessor Trustee an instrument accepting such appointment under the Trust Agreement, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties, and obligations of its predecessor under the Trust Agreement, with like effect as if originally named as Trustee. The predecessor Trustee shall deliver to the successor Trustee all documents and statements and monies held by it under the Trust Agreement; and the

predecessor Trustee shall execute and deliver such instruments and do such other things as may reasonably be required for fully and certainly vesting and confirming in the successor Trustee all such rights, powers, duties and obligations.

No successor Trustee shall accept appointment as provided in this Section 8.03 unless at the time of such acceptance such successor Trustee shall be eligible pursuant to Section 8.01.

Section 8.04 Merger or Consolidation of Trustee. Any Person into which the Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of the Trustee, shall, without the execution or filing of any instrument or any further act on the part of any of the parties to the Trust Agreement, anything in the Trust Agreement to the contrary notwithstanding, be the successor of the Trustee under the Trust Agreement; provided, such Person shall be eligible pursuant to Section 8.01.

Section 8.05 Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of the Trust Agreement, at any time, for the purpose of meeting any legal requirements of any jurisdiction in which any part of any Collateral may at the time be located, the Trustee shall have the power and shall execute and deliver all instruments to appoint one or more Persons approved by the Trustee to act as co-trustee, jointly with it, or as separate trustee or separate trustees, of all or any part of any Collateral, and subject to Section 2.08 to vest in such Person, in such capacity, such title to any Collateral, or any part thereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee under the Trust Agreement shall be required to meet the terms of eligibility as a successor Trustee pursuant to Section 8.03 and no notice of the appointment of any co-trustee or separate trustee shall be required; provided, however, that any co-trustee or separate trustee must be a "United States person" within the meaning of Section 7701(a)(30) of the Code and a "bank" within the meaning of Section 581 of the Code.

(b) Each separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties, and obligations conferred or imposed upon the Trustee shall be conferred upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Trustee

shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the discretion of the trustee;

(ii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee; and

(iii) no trustee shall be personally liable by reason of the act or omission of any other trustee under the Trust Agreement.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustee and co-trustee, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Section 8.05 and the conditions of this Article 8. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instruments of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of the Trust Agreement, specifically including every provision of the Trust Agreement relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Each such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time appoint the Trustee as its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of the Trust Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor Trustee.

Section 8.06 Trustee May Own Notes. Except to the extent prohibited under the terms of the Notes, the Trustee, in its individual or any other capacity, may become the beneficial owner or pledgee of Notes, to the extent that such ownership does not inhibit the Trust from relying on Rule 3a-7 promulgated under the Investment Company Act, with the same rights as it would have if it were not the Trustee; provided, that any Notes so owned or pledged shall not be entitled to participate in any decisions made or instructions given to the Trustee or the Indenture Trustee by the Holders as a group. The Trustee may deal with the Trust and the Trust Beneficial Owner in banking and trustee transactions with the same rights as it would have if it were not the Trustee.

ARTICLE 9  
VOTING; ACTS OF SECURITYHOLDERS; MEETINGS

Section 9.01 Limitations on Voting Rights. Except as provided in the Trust Agreement or in the Indenture or as otherwise required by law, no Holder of Trust Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties to the Trust Agreement, nor shall anything in the Trust Agreement set forth, or contained in the terms of the Trust Securities, be construed so as to constitute the Securityholders from time to time as members of an association.

Section 9.02 Meetings of the Trust Beneficial Owner. No annual or other meeting of the Trust Beneficial Owner is required to be held.

ARTICLE 10  
MISCELLANEOUS PROVISIONS

Section 10.01 Limitation on Rights of Securityholders.

(a) The death, bankruptcy, termination, dissolution or incapacity of any Person having an interest, beneficial or otherwise, in Trust Securities or the Trust shall not operate to terminate the Trust Agreement, nor to annul, dissolve or terminate the Trust, nor to entitle the legal successors, representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the arrangements contemplated by the Trust Agreement, nor otherwise affect the rights, obligations and liabilities of the parties to the Trust Agreement or any of them.

(b) Except as provided in the Indenture, no Securityholder shall have any right by virtue of any provision of the Trust Agreement to institute any suit, action or proceeding in equity or at law with respect to the Trust Agreement, unless (i) the Securityholders shall have made written request upon the Trustee to institute such suit, action or proceeding in the name of the Trust and shall have offered to the Trustee and the Trust such reasonable indemnity as they may require against the costs, expenses and liabilities to be incurred thereby and (ii) the Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such suit, action or proceeding. It is expressly understood and covenanted by each Securityholder with every other Securityholder, the Trust and the Trustee, that no one or more Securityholder shall have any right in any manner whatever by availing itself or themselves of any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Securityholder, or to obtain or seek to obtain priority over or preference to any other such Securityholder, or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement.

Section 10.02 Amendment.

(a) The Trust Agreement may be amended from time to time by the Trustee and the Trust Beneficial Owner, by, and only by, a written instrument executed by the Trustee and the Trust Beneficial Owner, in any way that is not inconsistent with the intent of the Trust Agreement, including, without limitation, (i) to cure any ambiguity, (ii) to correct, supplement or modify any provision in the Trust Agreement that is inconsistent with another provision in the Trust Agreement or (iii) to modify, eliminate or add to any provisions of the Trust Agreement to the extent necessary to ensure that the Trust will be classified for U.S. federal income tax purposes as disregarded or treated as a grantor trust (assuming that the Trust were not disregarded) at all times or to ensure that the Trust will not be required to register as an investment company under the Investment Company Act and no such amendment shall require the consent of any other Securityholder, except to the extent specified in Sections 10.02(b) and 10.02(c).

(b) For so long as any Trust Securities remain outstanding, except as provided in Section 10.02(c), any amendment to the Trust Agreement that would adversely affect, in any material respect, the terms of any Notes, other than any amendment of the type contemplated by clause (iii) of Section 10.02(a), shall require the prior consent of the Holders of a majority of the outstanding principal amount of the Notes.

(c) For so long as any Trust Securities remain outstanding, the Trust Agreement may not be amended to (i) change the amount or timing of any payment of any Trust Securities or (ii) impair the right of any Securityholder to institute suit for the enforcement of any right for principal and interest or other distribution without the consent of each affected Securityholder.

(d) The Trustee shall not be required to enter into any amendment to the Trust Agreement which affects its own rights, duties or immunities under the Trust Agreement.

(e) Prior to execution of any amendment to the Trust Agreement, the Trustee shall be entitled to an opinion of counsel as to whether such amendment is permitted by the terms of the Trust Agreement and whether all conditions precedent to such amendment have been met.

(f) Promptly after the execution of any such amendment or consent, the Trustee shall furnish a copy of such amendment or consent (including those obtained or effected hereby) to the Indenture Trustee, the Trust Beneficial Owner, the agents under the Distribution Agreement and the Rating Agencies.

(g) Notwithstanding any other provision of the Trust Agreement, (i) no amendment to the Trust Agreement may be made if such amendment would cause the Trust not to be disregarded or treated as a grantor trust (assuming that the Trust

were not disregarded) for U.S. federal income tax purposes and (ii) no amendment to the Trust Agreement may be made without the prior consent of Principal Life.

Section 10.03 Notice. All demands, notices, instructions and other communications shall be in writing (including telecopied or telegraphic communications) and shall be personally delivered, mailed or transmitted by telecopy or telegraph, respectively, addressed as set forth below:

If to the Trustee:

U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, New York 10005  
Attention: Adam Berman  
Facsimile: (212) 509-3384

If to the Trust Beneficial Owner:

GSS Holdings II, Inc.  
445 Broad Hollow Road, Suite 239  
Melville, New York 11747  
Attention: Andy Stidd  
Facsimile: (212) 302-8767

If to the Indenture Trustee, at

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Attention: Nancy Forte  
Facsimile: (212) 657-3862

or at such other address as shall be designated by any such party in a written notice to the other parties. Notwithstanding the foregoing, any notice required or permitted to be mailed to the Trust Beneficial Owner shall be given by first class mail, postage prepaid, at the address of the Trust Beneficial Owner as shown in the Securities Register, and any notices mailed within the time prescribed in the Trust Agreement shall be conclusively presumed to have been duly given, whether or not the Trust Beneficial Owner received such notice. Any notice required or permitted to be mailed to any Holder of a Note shall be given as specified in the Indenture.

Section 10.04 No Recourse. The Trust Beneficial Owner acknowledges that the Trust Beneficial Interest represents a beneficial interest in the Trust only and does not represent an obligation of Principal Life, the Trustee, the Indenture Trustee or any Affiliate of any of the foregoing and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in the Trust Agreement or the Indenture.

Section 10.05 No Petition. To the extent permitted by applicable law, each of the Trustee and the Trust Beneficial Owner covenants and agrees that it will not institute against, or join with any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under the laws of any jurisdiction. This Section 10.05 shall survive termination of the Trust Agreement.

Section 10.06 Governing Law. The Trust Agreement shall be governed by and construed in accordance with the laws of the jurisdiction specified in the Trust Agreement without regard to the principles of conflicts of laws thereof and the obligations, rights and remedies of the parties under the Trust Agreement shall be determined in accordance with such laws.

Section 10.07 Severability. If any provision in the Trust Agreement shall be invalid, illegal or unenforceable, such provisions shall be deemed severable from the remaining provisions of the Trust Agreement and shall in no way affect the validity or enforceability of such other provisions of the Trust Agreement.

Section 10.08 Trust Securities Nonassessable and Fully Paid. Securityholders shall not be personally liable for the obligations of the Trust. The fractional undivided beneficial interest in the assets held in the Trust represented by the Trust Beneficial Interest shall be nonassessable for any losses or expenses related to the Trust or for any reason whatsoever. The Notes, upon execution thereof by the Trustee pursuant to the Indenture and upon receipt of payment therefore, are and shall be deemed fully paid.

Section 10.09 Third-Party Beneficiaries. The Trust Agreement shall inure to the benefit of and be binding upon the parties thereto and their respective successors and permitted assigns. Except as otherwise provided in the Trust Agreement, no other Person shall have any right or obligation thereunder.

## OMNIBUS INSTRUMENT

WHEREAS, the parties named herein desire to enter into certain Program Documents contained herein, each such document dated as of this [ ] day of [ ], 2004, relating to the issuance by Principal Life Income Fundings Trust [ ] (the "Trust") of Notes to investors under Principal Life's secured notes program;

WHEREAS, the Trust is a trust and will be organized under and its activities will be governed by the provisions of the Trust Agreement (set forth in Section A of this Omnibus Instrument), dated as of the date of the Pricing Supplement (attached to this Omnibus Instrument as Exhibit D) (the "Pricing Supplement"), by and between the parties thereto indicated in Section F herein;

WHEREAS, certain expense and indemnification arrangements between Principal Life and the Trustee, on behalf of itself and on behalf of the Trust, are governed pursuant to the provisions of the Expense and Indemnity Agreement dated as of March 5, 2004, by and between Principal Life and the Trustee;

WHEREAS, certain licensing arrangements between the Trust and Principal Financial Services, Inc. will be governed pursuant to the provisions of the License Agreement (set forth in Section B of this Omnibus Instrument), dated as of the date of the Pricing Supplement, by and between the parties thereto indicated in Section F herein;

WHEREAS, certain custodial arrangements of the Funding Agreement and the Guarantee will be governed pursuant to the provisions of the Custodial Agreement (the "Custodial Agreement") dated as of March 5, 2004, by and among Bankers Trust Company, N.A., acting as custodian (the "Custodian"), the Indenture Trustee and the Trustee, on behalf of the Trust;

WHEREAS, the Notes will be issued pursuant to the Indenture (set forth in Section C of this Omnibus Instrument), dated as of the Original Issue Date, by and between the parties thereto indicated in Section F herein;

WHEREAS, the sale of the Notes will be governed by the Terms Agreement (set forth in Section D of this Omnibus Instrument), dated the date of the Pricing Supplement, by and among the parties thereto indicated in Section F herein; and

WHEREAS, certain agreements relating to the Notes, the Funding Agreement and the Guarantee are set forth in the Coordination Agreement (set forth in Section E of this Omnibus Instrument), dated as of the date of the Pricing Supplement, by and among the parties thereto indicated in Section F herein.

All capitalized terms used herein and not otherwise defined will have the meanings set forth in the Indenture.

[Remainder of Page Left Intentionally Blank.]



SECTION A

TRUST AGREEMENT

This TRUST AGREEMENT (this "Trust Agreement"), dated as of the date of the Pricing Supplement, is entered into by and between GSS Holdings II, Inc., a Delaware corporation, as trust beneficial owner (the "Trust Beneficial Owner"), and U.S. Bank Trust National Association, a national banking association, as Trustee (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Trust Beneficial Owner and the Trustee desire to authorize the issuance of a Trust Beneficial Interest and a series of Notes in connection with the entry into this Trust Agreement;

WHEREAS, all things necessary to make this Trust Agreement a valid and legally binding agreement of the Trustee and the Trust Beneficial Owner, enforceable in accordance with its terms, have been done;

WHEREAS, the parties intend to provide for, among other things, (i) the issuance and sale of the Notes (pursuant to the Indenture, the Distribution Agreement and the related Terms Agreement) and the Trust Beneficial Interest, (ii) the use of the proceeds of the sale of the Notes and Trust Beneficial Interest to acquire the Funding Agreement, the payment obligations of which will be fully and unconditionally guaranteed by the Guarantee, and (iii) all other actions deemed necessary or desirable in connection with the transactions contemplated by this Trust Agreement; and

WHEREAS, the parties hereto desire to incorporate by reference those certain Standard Trust Terms, dated as of March 5, 2004, and attached to the Omnibus Instrument as Exhibit A (the "Standard Trust Terms") and all capitalized terms not otherwise defined herein (including the recitals hereof) shall have the meanings set forth in the Standard Trust Terms (the Standard Trust Terms and this Trust Agreement, collectively, the "Trust Agreement").

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which are hereby acknowledged, each party hereby agrees as follows:

ARTICLE 1

Section 1.01 Incorporation by Reference. All terms, provisions and agreements set forth in the Standard Trust Terms (except to the extent expressly modified herein) are hereby incorporated herein by reference with the same force and effect as though fully set forth herein. To the extent that the terms set forth in Article 2 of this Trust Agreement are inconsistent with the terms of the Standard Trust Terms, the terms set forth in Article 2 herein shall apply.

## ARTICLE 2

Section 2.01 Name. The Trust created and governed by the Trust Agreement shall be the trust specified in the Omnibus Instrument. The name of the Trust shall be the name specified in the first paragraph of the Omnibus Instrument, as such name may be modified from time to time by the Trustee following written notice to the Trust Beneficial Owner.

Section 2.02 Jurisdiction. The Trust is hereby organized in, and formed under and pursuant to, the laws of the State of New York.

Section 2.03 Initial Capital Contribution and Ownership. The Trust Beneficial Owner has paid or has caused to be paid to, or to an account at the direction of, the Trustee, on the date hereof, the sum of \$15 (or, in the case of Notes issued with original issue discount, such amount multiplied by the issue price of the Notes). The Trustee hereby acknowledges receipt in trust from the Trust Beneficial Owner, as of the date hereof, of the foregoing contribution, which shall be used along with the proceeds from the sale of the series of Notes to purchase the Funding Agreement. Upon the creation of the Trust and the registration of the Trust Beneficial Interest in the Securities Register (as defined in the Trust Agreement) by the Registrar in the name of the Trust Beneficial Owner, the Trust Beneficial Owner shall be the sole beneficial owner of the Trust.

Section 2.04 Acknowledgment. The Trustee, on behalf of the Trust, expressly acknowledges its duties and obligations set forth in the Standard Trust Terms incorporated herein.

Section 2.05 Additional Terms.

None

Section 2.06 Omnibus Instrument; Execution and Incorporation of Terms.

The parties to the Trust Agreement will enter into the Trust Agreement by executing the Omnibus Instrument.

By executing the Omnibus Instrument, the Trustee and the Trust Beneficial Owner hereby agree that the Trust Agreement will constitute a legal, valid and binding agreement between the Trustee and the Trust Beneficial Owner.

All terms relating to the Trust or the series of Notes not otherwise included in the Trust Agreement will be as specified in the Omnibus Instrument or Pricing Supplement, as indicated herein.

Section 2.07 Governing Law. The Trust Agreement will be governed by, and construed in accordance with, the laws of the State of New York.

Section 2.08 Counterparts. The Trust Agreement, through the Omnibus Instrument, may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and all of which counterparts shall constitute but one and the same instrument.

[Remainder of Page Left Intentionally Blank.]

SECTION B

LICENSE AGREEMENT

This LICENSE AGREEMENT (this "License Agreement"), dated as of the date of the Pricing Supplement, is entered into by and between Principal Financial Services, Inc., an Iowa corporation with its principal place of business at 711 High Street, Des Moines, Iowa 50392 (the "Licensor"), and the Principal Life Income Fundings Trust specified in the Omnibus Instrument (the "Licensee").

W I T N E S S E T H:

WHEREAS, the Licensor is the owner of certain trademarks and service marks and registrations and pending applications therefor, and may acquire additional trademarks and service marks in the future, all as described more fully below;

WHEREAS, the Licensee desires to use certain of the Licensor's trademarks and service marks in connection with the Licensee's activities, as described more fully below;

WHEREAS, the Licensor and the Licensee wish to formalize the agreement between them regarding the Licensee's use of the Licensor's marks; and

WHEREAS, the parties hereto desire to incorporate by reference those certain Standard License Agreement Terms, dated March 5, 2004, and attached to the Omnibus Instrument as Exhibit B (the "Standard License Agreement Terms") and all capitalized terms not otherwise defined herein (including the recitals hereof) shall have the meanings set forth in the Standard License Agreement Terms (the Standard License Agreement Terms and this License Agreement, collectively, the "License Agreement").

NOW, THEREFORE, in consideration of the mutual promises set forth herein and for other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, each party hereby agrees as follows:

ARTICLE 1

Section 1.01 Incorporation by Reference. All terms, provisions and agreements set forth in the Standard License Agreement Terms (except to the extent expressly modified herein) are hereby incorporated herein by reference with the same force and effect as though fully set forth herein. To the extent that the terms set forth in Article 2 of this License Agreement are inconsistent with the terms of the Standard License Agreement Terms, the terms set forth in Article 2 herein shall apply.

ARTICLE 2

Section 2.01 Additional Terms.

None

Section 2.02 Omnibus Instrument; Execution and Incorporation of Terms.

The parties to the License Agreement will enter into the License Agreement by executing the Omnibus Instrument.

By executing the Omnibus Instrument, the Licensor and the Licensee hereby agree that the License Agreement will constitute a legal, valid and binding agreement between the Licensor and the Licensee.

All terms relating to the Trust or the Notes not otherwise included in the License Agreement will be as specified in the Omnibus Instrument or Pricing Supplement, as indicated herein.

Section 2.03 Counterparts. The License Agreement, through the Omnibus Instrument, may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and all of which counterparts shall constitute but one and the same instrument.

[Remainder of Page Left Intentionally Blank.]

SECTION C

INDENTURE

This INDENTURE (this "Indenture") is entered into as of the Original Issue Date by and between the Principal Life Income Fundings Trust specified in the Omnibus Instrument (the "Trust") and Citibank, N.A., as indenture trustee (the "Indenture Trustee").

Citibank, N.A., in its capacity as indenture trustee, hereby accepts its role as Registrar, Paying Agent, Transfer Agent and Calculation Agent hereunder.

References herein to "Indenture Trustee," "Registrar," "Transfer Agent," "Paying Agent" or "Calculation Agent" shall include the permitted successors and assigns of any such entity from time to time.

W I T N E S S E T H:

WHEREAS, the Trust has duly authorized the execution and delivery of this Indenture to provide for the issuance of Notes;

WHEREAS, all things necessary to make this Indenture a valid and legally binding agreement of the Trust and the other parties to this Indenture, enforceable in accordance with its terms, have been done, and the Trust proposes to do all things necessary to make the Notes, when executed by the Trust and authenticated and delivered pursuant hereto, valid and legally binding obligations of the Trust as hereinafter provided; and

WHEREAS, the parties hereto desire to incorporate by reference those certain Standard Indenture Terms, dated as of March 5, 2004, and attached to the Omnibus Instrument as Exhibit C (the "Standard Indenture Terms") and all capitalized terms not otherwise defined herein (including the recitals hereof) shall have the meanings set forth in the Standard Indenture Terms (the Standard Indenture Terms and this Indenture, collectively, the "Indenture").

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually covenanted and agreed by each of the parties hereto as follows:

ARTICLE 1

Section 1.01 Incorporation by Reference. All terms, provisions and agreements set forth in the Standard Indenture Terms (except to the extent expressly modified herein) are hereby incorporated herein by reference (with the same force and effect as though fully set forth herein). To the extent that the terms set forth in Article 2 of this Indenture are inconsistent with the terms of the Standard Indenture Terms, the terms set forth in Article 2 herein shall apply.

## ARTICLE 2

Section 2.01 Agreement to be Bound. Each of the Trust, the Indenture Trustee, the Registrar, the Transfer Agent, the Paying Agent and the Calculation Agent hereby agrees to be bound by all of the terms, provisions and agreements set forth in the Indenture, with respect to all matters contemplated in the Indenture, including, without limitation, those relating to the issuance of the below-referenced Notes.

Section 2.02 Designation of the Trust, the Notes, the Funding Agreement and the Guarantee. The Trust created by the Trust Agreement and referred to in the Indenture is the Principal Life Income Fundings Trust specified in the Omnibus Instrument. The Notes issued by the Trust and governed by the Indenture shall be the Notes specified in the Pricing Supplement. The Funding Agreement designated hereby is the Funding Agreement designated in the Pricing Supplement dated as of the Original Issue Date between the Trust and Principal Life. The Guarantee designated hereby is the Guarantee dated as of the Original Issue Date of PFG.

Section 2.03 Additional Terms.

None

Section 2.04 Omnibus Instrument; Execution and Incorporation of Terms.

The parties to the Indenture will enter into the Indenture by executing the Omnibus Instrument.

By executing the Omnibus Instrument, the Indenture Trustee, the Registrar, the Transfer Agent, the Paying Agent, the Calculation Agent and the Trust hereby agree that the Indenture will constitute a legal, valid and binding agreement between the Indenture Trustee, the Registrar, the Transfer Agent, the Paying Agent, the Calculation Agent and the Trust.

All terms relating to the Trust or the Notes not otherwise included in the Indenture will be as specified in the Omnibus Instrument or Pricing Supplement, as indicated herein.

Section 2.05 Counterparts. The Indenture, through the Omnibus Instrument, may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and all of which counterparts shall constitute one and the same instrument.

[Remainder of Page Left Intentionally Blank.]

SECTION D  
TERMS AGREEMENT

This TERMS AGREEMENT (this "Terms Agreement") is entered into as of the Original Issue Date by and among Principal Life Insurance Company ("Principal Life"), Principal Financial Group, Inc. ("PFG"), the Principal Life Income Fundings Trust specified in the Omnibus Instrument (the "Trust") and the [Purchasing Agent/Agent(s)], specified in the Pricing Supplement [(the "Purchasing Agent")/(the "Agent(s))"].

W I T N E S S E T H:

WHEREAS, Principal Life, PFG and the agents named therein, including the [Purchasing Agent/Agent(s)] have entered into that certain Distribution Agreement dated March 5, 2004 (the "Distribution Agreement").

NOW, THEREFORE, in consideration of the mutual promises set forth herein and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, each of the parties hereby agrees as follows:

ARTICLE 1

Section 1.01 Incorporation by Reference. The provisions of the Distribution Agreement and the related definitions (unless otherwise specified herein) are incorporated by reference herein and shall be deemed to have the same force and effect as if set forth in full herein.

ARTICLE 2

Section 2.01 Addition of Trust as Party to Distribution Agreement.

Pursuant to Section 1 of the Distribution Agreement, each of the undersigned parties hereby acknowledges and agrees that the Trust, upon execution hereof by the Trust and the other parties to the Distribution Agreement (other than any other trusts organized in connection with the Registration Statement that are party thereto as of the date hereof), shall become a Trust for purposes of the Distribution Agreement in accordance with the terms thereof, in respect of the Notes, with all the authority, rights, powers, duties and obligations of a Trust under the Distribution Agreement. The Trust confirms that any agreement, covenant, acknowledgment, representation or warranty under the Distribution Agreement applicable to the Trust is made by the Trust at the date hereof, unless another time or times are specified in the Distribution Agreement, in which case such agreement, covenant, acknowledgment, representation or warranty shall be deemed to be confirmed by the Trust at such specified time or times.

- - - - -  
\*Include only if [Purchasing Agent/Agent(s)] purchasing Notes as principals.

\*\*Include only if Agents serving as agents.



[Section 2.02 Purchase of Notes as Principal.

(a) Subject in all respects to the terms and conditions of the Distribution Agreement, the Trust hereby agrees to sell to each Purchasing Agent and each Purchasing Agent hereby agrees to purchase, [severally and not jointly,] the Notes having the terms specified in the Pricing Supplement relating to such Notes.

(b) In connection with any purchase of Notes from the Trust by the Purchasing Agent(s) as principal, the parties agrees that the items specified on Schedule I of the Omnibus Instrument will be delivered as of the Settlement Date.]\*

[Section 2.02 Sale of Notes Through Agents. Subject in all respects to the terms and conditions of the Distribution Agreement, the Trust and each Agent hereby agree that the Trust will sell the Notes through each Agent as agent on behalf of the Trust.]\*\*

Section 2.03 Termination. [Upon the termination of this Terms Agreement pursuant to Section 13(b) of the Distribution Agreement]\* [In the event that a purchaser shall fail either to accept delivery of or to make payment for a Note on the date fixed for settlement]\*\* the undersigned parties hereby agree to allocate the expenses reasonably incurred prior to or in connection with such [termination]\* [failure]\*\* as follows:

Section 2.04 Governing Law. This Terms Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the principles of conflicts of laws thereof.

Section 2.05 Notices. For purposes of Section 14 of the Distribution Agreement, the Trust's communications details are as set forth in Section E of the Omnibus Instrument.

Section 2.06 Omnibus Instrument; Execution and Incorporation of Terms.

The parties to this Terms Agreement will enter into this Terms Agreement by executing the Omnibus Instrument.

By executing the Omnibus Instrument, each party hereto agrees that this Terms Agreement will constitute a legal, valid and binding agreement by and among such parties.

All terms relating to the Trust or the Notes not otherwise included in this Terms Agreement will be as specified in the Omnibus Instrument or Pricing Supplement, as indicated herein.

- - - - -  
\*Include only if [Purchasing Agent/Agent(s)] purchasing Notes as principals.

\*\*Include only if Agents serving as agents.

Section 2.08 Counterparts. This Terms Agreement, through the Omnibus Instrument, may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and all of which counterparts shall constitute but one and the same instrument.

[Remainder of Page Left Intentionally Blank.]

SECTION E

COORDINATION AGREEMENT

This COORDINATION AGREEMENT (this "Coordination Agreement"), dated as of the date of the Pricing Supplement, is entered into by and among Principal Life Insurance Company ("Principal Life"), Principal Financial Group, Inc. ("PFG"), the Principal Life Income Fundings Trust specified in the Omnibus Instrument (the "Trust"), Principal Financial Services, Inc. ("PFSI"), Bankers Trust Company, N.A. and Citibank, N.A., as indenture trustee (the "Indenture Trustee").

W I T N E S S E T H

WHEREAS, the Trust will enter into the Funding Agreement with Principal Life dated as of the Original Issue Date specified in the Pricing Supplement;

WHEREAS, PFG will issue a Guarantee to the Trust as of the Original Issue Date specified in the Pricing Supplement, which will fully and unconditionally guarantee the payment obligations of Principal Life under the Funding Agreement;

WHEREAS, the Purchasing Agents (as defined in the Distribution Agreement) have agreed to sell the Notes in accordance with the Registration Statement;

WHEREAS, the Trust intends to issue the Notes in accordance with the Indenture, to collaterally assign to, and grant a security interest in, the Funding Agreement and the Guarantee to and in favor of the Indenture Trustee in accordance with the Indenture to secure payment of the Notes;

WHEREAS, the Custodian will hold the Funding Agreement and the Guarantee on behalf of the Indenture Trustee pursuant to the terms of the Custodial Agreement; and

WHEREAS, certain licensing arrangements between the Trust and PFSI will be governed pursuant to the provisions of the License Agreement.

NOW, THEREFORE, to give effect to the agreements and arrangements established under the Terms Agreement included in the Omnibus Instrument, as applicable, the Trust Agreement, the Indenture and the Notes, and in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the sufficiency of which are hereby acknowledged, each party hereby agrees as follows:

ARTICLE 1

Section 1.01 Delivery of the Funding Agreement and the Guarantee. The Trust hereby authorizes the Custodian, on behalf of the Indenture Trustee, to receive the Funding Agreement from Principal Life and the Guarantee from PFG pursuant to the assignment of the Funding Agreement and Guarantee (the "Assignment"), to be entered into on the Original Issue Date, included in the closing instrument dated as of the Original Issue Date (the "Closing Instrument").

Section 1.02 Issuance and Purchase of the Notes.

(a) Delivery of the Funding Agreement and the Guarantee to the Custodian, on behalf of the Indenture Trustee, pursuant to the Assignment or execution of the cross receipt contained in the Closing Instrument shall be confirmation of payment by the Trust for the Funding Agreement.

(b) The Trust hereby directs the Indenture Trustee, upon receipt by the Custodian, on behalf of the Indenture Trustee, of the Funding Agreement pursuant to the Assignment and upon receipt by the Custodian, on behalf of the Indenture Trustee, of the Guarantee, (i) to authenticate the certificates representing the Notes (the "Notes Certificates") in accordance with the Indenture and (ii) to (A) deliver each relevant Notes Certificate to the clearing system or systems identified in each such Notes Certificate, or to the nominee of such clearing system, or the custodian thereof, for credit to such accounts as the Purchasing Agent(s) may direct, or (B) deliver each relevant Notes Certificate to the purchasers thereof as identified by the Purchasing Agent(s).

ARTICLE 2

Section 2.01 Directions Regarding Periodic Payments. As registered owner of the Funding Agreement and the Guarantee as collateral securing payments on the Notes, the Indenture Trustee will receive payments on the Funding Agreement and the Guarantee on behalf of the Trust. The Trust hereby directs the Indenture Trustee to use such funds to make payments on behalf of the Trust pursuant to the Trust Agreement and the Indenture.

Section 2.02 Maturity of the Funding Agreement. Upon the maturity of the Funding Agreement and the return of funds thereunder, the Trust hereby directs the Indenture Trustee to set aside from such funds an amount sufficient for the repayment of the outstanding principal on the Notes and Trust Beneficial Interest when due.

ARTICLE 3

Section 3.01 Certificates. Principal Life hereby agrees to deliver an Officer's Certificate, a copy of which is attached hereto as Exhibit E, on a quarterly basis to any rating agency currently rating the Program. The Trust hereby agrees to deliver an Officer's Certificate, a copy of which is attached hereto as Exhibit F, on a quarterly basis to any rating agency currently rating the Program.

Section 3.02 Filings. Principal Life hereby covenants to file, or cause to be filed, in a timely manner on behalf of the Trust all reports, certifications or similar filings required under the Securities Exchange Act of 1934, as amended.

ARTICLE 4

Section 4.01 No Additional Liability. Nothing in this Coordination Agreement shall impose any liability or obligation on the part of any party to this Coordination Agreement to make any payment or disbursement in addition to any liability or obligation such party has under the Program Documents, except to the extent that a party has actually received funds which it is obligated to disburse pursuant to this Coordination Agreement.

Section 4.02 No Conflict. This Coordination Agreement is intended to be in furtherance of the agreements reflected in the documents related to the Program Documents, and not in conflict. To the extent that a provision of this Coordination Agreement conflicts with the

provisions of one or more Program Documents, the provisions of such Program Documents shall govern.

Section 4.03 Governing Law. This Coordination Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to the principles of conflicts of laws thereof.

Section 4.04 Severability. If any provision in this Coordination Agreement shall be invalid, illegal or unenforceable, such provision shall be deemed severable from the remaining provisions of this Coordination Agreement and shall in no way affect the validity or enforceability of such other provisions of this Coordination Agreement.

Section 4.05 Severability. If any provision in this Coordination Agreement shall be invalid, illegal or unenforceable, such provision shall be deemed severable from the remaining provisions of this Coordination Agreement and shall in no way affect the validity or enforceability of such other provisions of this Coordination Agreement.

Section 4.06 Notices. All demands, notices and communications under this Coordination Agreement shall be in writing and shall be deemed to have been duly given upon receipt at the addresses set forth below:

To the Trust:

Principal Life Income Fundings Trust (followed by the number  
set forth in the Omnibus Instrument)  
c/o U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, New York 10005  
Attention: Corporate Trust Administration  
Telephone: (212) 361-2458  
Facsimile: (212) 809-5459 and (212) 509-3384

To the Indenture Trustee:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, New York 10005  
Attention: Nancy Forte  
Telephone: (212) 657-7403  
Facsimile: (212) 657-3862

To Principal Life:

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392  
Attention: General Counsel  
Telephone: (515) 247-5111  
Facsimile: (515) 248-3011

With a copy to:

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392  
Attention: Jim Fifield  
Telephone: (515) 248-9196  
Facsimile: (515) 235-9353

To PFG:

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392  
Attention: General Counsel  
Telephone: (515) 247-5111  
Facsimile: (515) 248-3011

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392  
Attention: Jim Fifield  
Telephone: (515) 248-9196  
Facsimile: (515) 235-9353

To Principal Financial Services, Inc.:

Principal Financial Services, Inc.  
711 High Street  
Des Moines, Iowa 50392  
Attention: General Counsel  
Telephone: (515) 247-5111  
Facsimile: (515) 248-3011

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392  
Attention: Jim Fifield  
Telephone: (515) 248-9196  
Facsimile: (515) 235-9353

To Bankers Trust Company, N.A:

Bankers Trust Company, N.A.  
665 Locust Street  
Des Moines, Iowa 50309-3702  
Attention: Angela Brick  
Telephone: (515) 245-2820  
Facsimile: (515) 247-2101

or at such other address as shall be designated by any such party in a written notice to the other parties.

#### ARTICLE 5

Section 5.01 Omnibus Instrument; Execution and Incorporation of Terms.

The parties to this Coordination Agreement will enter into this Coordination Agreement by executing the Omnibus Instrument.

By executing the Omnibus Instrument, each party hereto agrees that this Coordination Agreement will constitute a legal, valid and binding agreement by and among the Trust, Principal Life, PFG, PFSI, the Custodian and the Indenture Trustee.

All terms relating to the Trust or the Notes not otherwise included in this Coordination Agreement will be as specified in the Omnibus Instrument or Pricing Supplement, as indicated herein.

Section 5.02 Acknowledgment. Principal Life hereby acknowledges Section 2.10 of the Indenture and Section 6.1 of the Custodial Agreement. The Trust hereby acknowledges and agrees to the terms of the Custodial Agreement.

Section 5.03 Counterparts. This Coordination Agreement, through the Omnibus Instrument, may be executed in any number of counterparts, each of which counterparts shall be deemed to be an original, and all of which counterparts shall constitute but one and the same instrument.

Section 5.04 Capitalized Terms. All capitalized terms used herein and not otherwise defined in this Coordination Agreement will have the meanings set forth in the Indenture.

[Remainder of Page Left Intentionally Blank.]

SECTION F

MISCELLANEOUS AND EXECUTION PAGES

This Omnibus Instrument may be executed by each of the parties hereto in any number of counterparts, and by each of the parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Each signatory, by its execution hereof, does hereby become a party to each of the agreements or indenture identified for such party as of the date specified in such agreements or indenture.

IN WITNESS WHEREOF, the undersigned have executed this Omnibus Instrument with respect to the Notes as of the date first written above.

PRINCIPAL LIFE INSURANCE COMPANY (in executing below agrees and becomes a party to (i) the Terms Agreement set forth in Section D herein and (ii) the Coordination Agreement set forth in Section E herein)

By: \_\_\_\_\_  
Name:  
Title:

PRINCIPAL FINANCIAL GROUP, INC. (in executing below agrees and becomes a party to (i) the Terms Agreement set forth in Section D herein and (ii) the Coordination Agreement set forth in Section E herein)

By: \_\_\_\_\_  
Name:  
Title:

PRINCIPAL FINANCIAL SERVICES, INC. (in executing below agrees and becomes a party to (i) the License Agreement set forth in Section B herein and (ii) the Coordination Agreement set forth in Section E herein)

By: \_\_\_\_\_  
Name:  
Title:



THE PRINCIPAL LIFE INCOME FUNDINGS TRUST DESIGNATED IN THIS OMNIBUS INSTRUMENT (in executing below agrees and becomes a party to (i) the License Agreement set forth in Section B herein, (ii) the Indenture set forth in Section C herein, (iii) the Terms Agreement set forth in Section D herein and (iv) the Coordination Agreement set forth in Section E herein)

By: U.S. Bank Trust National Association, not in its individual capacity but solely in its capacity as trustee of the Trust

By: -----  
Name:  
Title:

U.S. BANK TRUST NATIONAL ASSOCIATION (in executing below agrees and becomes a party to the Trust Agreement set forth in Section A herein), as Trustee

By: -----  
Name:  
Title:

GSS HOLDINGS II, INC. (in executing below agrees and becomes a party to the Trust Agreement set forth in Section A herein), as Trust Beneficial Owner

By: -----  
Name:  
Title:

CITIBANK, N.A. (in executing below agrees and becomes a party to (i) the Indenture set forth in Section C herein, as Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent and (ii) the Coordination Agreement set forth in Section E herein), as Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent

By: -----  
Name:  
Title:

BANKERS TRUST COMPANY, N.A. (in executing below agrees and becomes a party to the Coordination Agreement set forth in Section E herein)

By: \_\_\_\_\_  
Name:  
Title:

[MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED](1) (in executing below agrees and becomes a party to the Terms Agreement set forth in Section D herein)

By: \_\_\_\_\_  
Name:  
Title:

- - - - -  
(1) Insert name of Purchasing Agent(s) if other than Merrill Lynch, Pierce, Fenner & Smith Incorporated.

STANDARD TRUST TERMS  
WITH RESPECT TO  
PRINCIPAL LIFE INCOME FUNDINGS TRUSTS  
DATED AS OF March 5, 2004

TABLE OF CONTENTS

Page ---- ARTICLE 1 DEFINITIONS Section 1.01.  
Definitions.....1  
Section 1.02. Usage of  
Terms.....3 Section  
1.03. Section  
References.....3  
ARTICLE 2 CREATION OF TRUST Section 2.01. Name of the  
Trust.....3 Section  
2.02. Office of the Trustee; Principal Place of  
Business.....3 Section 2.03. Appointment of  
Trustee.....3 Section 2.04.  
Trust Beneficial  
Interest.....4 Section 2.05.  
Issuance of the  
Notes.....4 Section 2.06.  
Acquisition of Funding Agreement and  
Guarantee.....4 Section 2.07. Security Interest in  
the Collateral.....4 Section 2.08.  
Purposes of the  
Trust.....4 Section 2.09.  
Title to  
Collateral.....5 Section  
2.10. Allocation of Trust  
Expenses.....5 Section 2.11.  
Liability.....5  
Section 2.12. Income Tax Treatment; Tax Returns and  
Reports.....5 Section 2.13. Situs of  
Trust.....5 ARTICLE  
3 PAYMENT ACCOUNT Section 3.01. Payment  
Account.....6  
ARTICLE 4 TRUST SECURITIES Section 4.01. Initial  
Ownership.....7  
Section 4.02.  
Notes.....7  
Section 4.03. Registration of Transfer of Trust Beneficial  
Interest.....7 Section 4.04. Persons Deemed Holders of  
Trust Securities.....7 Section 4.05.  
Maintenance of  
Office.....7 Section 4.06.  
Ownership of the Trust Beneficial  
Interest.....7

TABLE OF CONTENTS  
(Continued)

Page	----	ARTICLE 5 REPRESENTATIONS AND WARRANTIES Section 5.01.	8
Trustee.....		Section 5.02. Trust Beneficial	
Owner.....		TRUSTEE Section 6.01. General	9
Authority.....		Section 6.02. General	9
Duties.....		Section 6.03. Specific	14
Duties.....		6.04. Acceptance of Trust and Duties; Limitation on Liability	14
Counsel.....		Section 6.05. Reliance; Advice of Delegation of Authorities and	18
Duties.....		Section 6.06. TERMINATION Section 7.01. Termination Upon the Trust Expiration	18
Date.....		Section 7.02. Termination of Agreement	18
Liquidation.....		Section 7.03. ARTICLE 8 SUCCESSOR AND ADDITIONAL TRUSTEES Section 8.01. Eligibility Requirements for the Trustee	19
Removal of the Trustee.....		Section 8.02. Resignation or Successor	20
Trustee.....		Section 8.03. 8.04. Merger or Consolidation of	20
Trustee.....		Section 8.05. Appointment of Co-Trustee or Separate Trustee	21
Notes.....		Section 8.06. Trustee May Own	21
Rights.....		ARTICLE 9 VOTING; ACTS OF SECURITYHOLDERS; MEETINGS Section 9.01. Limitations on Voting	22
Owner.....		Section 9.02. Meetings of the Trust Beneficial	23
Securityholders.....		ARTICLE 10 MISCELLANEOUS PROVISIONS Section 10.01. Limitation on Rights of	23
Amendment.....		Section 10.02.	24

TABLE OF CONTENTS  
(Continued)

Notice.....	Page ---- Section 10.03.	25
	Section 10.04. No	
Recourse.....		26
	Section 10.05. No	
Petition.....		26
	Section 10.06. Governing	
Law.....		26 Section
	10.07.	
Severability.....		26
	Section 10.08. Trust Securities Nonassessable and Fully	
Paid.....		26 Section 10.09 Third-Party
Beneficiaries.....		26

STANDARD TRUST TERMS

This document constitutes the Standard Trust Terms, dated as of March 5, 2004, which will be incorporated by reference in the Trust Agreement (specified in Section A of the Omnibus Instrument, as defined in the Indenture (as defined below)) between U.S. Bank Trust National Association, a national banking association, as trustee, (the "Trustee"), and GSS Holdings II, Inc., a Delaware corporation, as trust beneficial owner (the "Trust Beneficial Owner").

These Standard Trust Terms shall be of no force and effect unless and until incorporated by reference in, and then only to the extent not modified by, such Trust Agreement.

The following terms and provisions shall govern the activities of the Trust (as defined in the Indenture) subject to contrary terms and provisions expressly adopted in such Trust Agreement, which contrary terms shall be controlling.

WITNESSETH:

WHEREAS, the Trustee and the Trust Beneficial Owner desire to establish a trust for the purpose of issuing Notes (as defined in the Indenture) to investors which will be secured, and payments with respect to which will be funded, solely by the assets held in the Trust, and the proceeds of which will be used to purchase the Funding Agreement (as defined in the Indenture), issued by Principal Life (as defined in the Indenture), the payment obligations of which will be fully and unconditionally guaranteed by the Guarantee (as defined in the Indenture).

NOW, THEREFORE, it being the intention of the parties hereto that the Trust Agreement (as defined below) constitutes the governing instrument of the Trust, the Trustee and the Trust Beneficial Owner agree as follows:

ARTICLE 1  
DEFINITIONS

Section 1.01 Definitions. All capitalized terms not otherwise defined herein will have the meanings set forth in the Indenture. The following terms have the meanings set forth below:

"Corporate Trust Office" means the office of the Trustee located at 100 Wall Street, 16th Floor, New York, New York 10005.

"Funding Agreement Event of Default" means an "Event of Default" as defined in the Funding Agreement.

"Indenture" means that certain Indenture dated as of the date specified in the Omnibus Instrument, by and among the Trust and the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent, as may be amended, modified or supplemented from time to time.

"Payment Account" means each segregated non-interest-bearing corporate trust account for the Trust maintained by the Trustee in its trust department in which all amounts paid to the Trustee in respect of the Collateral will be held and from which the Trustee shall make payments pursuant to Section 3.01(b) and Article 7, to the extent such amounts are paid to the Trustee and deposited in the Payment Account.

"Registrar" has the meaning specified in Section 4.03.

"Securities Register" has the meaning specified in Section 4.03.

"Securityholder" means each Person in whose name any Trust Security is registered in the Securities Register or Register.

"Standard Trust Terms" means these Standard Trust Terms, dated as of March 5, 2004.

"Standing Order" has the meaning set forth in Section 3.01(d).

"Trust Agreement" means that certain Trust Agreement dated as of the date specified in the Omnibus Instrument, by and between the Trustee and the Trust Beneficial Owner, as may be amended, modified or supplemented from time to time, which incorporates by reference these Standard Trust Terms.

"Trust Beneficial Interest" means the undivided beneficial interest in the assets held in the Trust, having such rights as provided for in the Trust Agreement.

"Trust Beneficial Owner" means the Person identified as the "Trust Beneficial Owner" in the preamble to the Trust Agreement, in its capacity as the sole beneficial owner of the Trust.

"Trust Expenses" means any liabilities, obligations and expenses incurred, contracted for or otherwise existing with respect to the Trust.

"Trust Expiration Date" means the date specified in the Pricing Supplement or such earlier date as all of the outstanding Notes are redeemed or repaid in full by the Trust.

"Trust Security" means a Note or the Trust Beneficial Interest.



"Trustee" means the party named as such in the preamble to the Trust Agreement and shall also include its permitted successors and assigns, or any successor Trustee appointed, acting not in its individual capacity but solely as Trustee under the Trust Agreement. If there shall be at any time more than one Trustee hereunder, "Trustee" shall mean each such Trustee.

Section 1.02 Usage of Terms. With respect to all terms used in these Standard Trust Terms, the singular includes the plural and the plural the singular; words importing any gender include the other genders; references to "writing" include printing, typing, lithography, facsimile, electronic transmissions and other means of reproducing words in a visible form; references to agreements and other contractual instruments include all subsequent amendments hereto or changes herein entered into in accordance with their respective terms and not prohibited by the Trust Agreement; references to Persons include their permitted successors and assigns; and the terms "include" or "including" mean "include without limitation" or "including without limitation."

Section 1.03 Section References. All references to Articles, sections, paragraphs, subsections, exhibits and schedules shall be to such portions of these Standard Trust Terms unless otherwise expressly provided.

## ARTICLE 2 CREATION OF TRUST

Section 2.01 Name of the Trust. The Trust created under the Trust Agreement shall have the name specified in the Omnibus Instrument. The Trust's activities shall be conducted under the name of the Trust.

Section 2.02 Office of the Trustee; Principal Place of Business. The principal office of the Trust shall be in care of the Trustee at the Corporate Trust Office, or such other address in the State of New York as the Trustee may designate by written notice to the Trust Beneficial Owner, the Indenture Trustee and the Ratings Agencies.

Section 2.03 Appointment of Trustee. The parties to the Trust Agreement hereby appoint the Trustee as trustee of the Trust, to have all rights, powers and duties set forth in the Trust Agreement and in accordance with the applicable law with respect to accomplishing the purposes of the Trust.

Section 2.04 Trust Beneficial Interest. Contemporaneously with the execution and delivery of the Trust Agreement, the Trustee, on behalf of the Trust, shall cause the Trust Beneficial Owner to be recorded as the registered owner of the Trust Beneficial Interest on the Securities Register, against payment of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes) by the Trust Beneficial Owner to, or to an account at the direction of, the Trustee.

Section 2.05 Issuance of the Notes. Promptly following the execution and delivery of the Trust Agreement, the Trust shall, in accordance with the Indenture, issue and deliver or cause to be issued and delivered the aggregate principal amount of the Notes specified in the Pricing Supplement or supplement to the Indenture against payment therefor. The Holders of the Notes shall only have a right to receive payments from the Collateral as described in the Indenture and shall have no right to receive payments under the assets held in any other trust organized under the Program.

Section 2.06 Acquisition of Funding Agreement and Guarantee. Contemporaneously with the issuance and delivery of the Notes, the Trust shall acquire the Funding Agreement and the Guarantee.

Section 2.07 Security Interest in the Collateral. Contemporaneously with the issuance and delivery of the Notes, pursuant to the Indenture, the Trust shall collaterally assign the Funding Agreement and Guarantee to the Indenture Trustee, for the benefit of the Holders of the Notes, and grant to the Indenture Trustee, for the benefit of the Holders of the Notes, a first priority perfected security interest in and to the Collateral, including, without limitation, the Funding Agreement purchased by the Trust and the Guarantee.

Section 2.08 Purposes of the Trust. The exclusive purposes and functions of the Trust are (a) to issue and sell the Notes and the Trust Beneficial Interest, (b) to use the proceeds of the sale of the Notes and the Trust Beneficial Interest to acquire the Funding Agreement, (c) to collaterally assign and grant a security interest in the Funding Agreement in favor of the Indenture Trustee, (d) to acquire the Guarantee and to collaterally assign and grant a security interest in the Guarantee in favor of the Indenture Trustee, (e) to pay amounts due in respect of the Notes and the Trust Beneficial Interest, (f) to enter into the agreements and to take such actions as the Trustee has the power and authority to take pursuant to Section 6.01, as applicable, and (g) to engage in those activities necessary, advisable or incidental thereto (such as registering the transfer of the Trust Securities).

Section 2.09 Title to Collateral. Legal title to the Collateral shall be vested at all times in the Trust as a separate legal entity and shall be held and administered by the Trustee for the benefit of the Trust and each Securityholder, except that with respect to the Funding Agreement and the Guarantee collaterally assigned to the Indenture Trustee, legal title to the Funding Agreement and the Guarantee shall be recorded at all times in the books and records of Principal Life and PFG, respectively, in the name of the Indenture Trustee, for the benefit of the Holders.

Section 2.10 Allocation of Trust Expenses. Any costs and expenses of the Trust shall be paid by Principal Life pursuant to the applicable Expense and Indemnity Agreement to the extent provided therein.

Section 2.11 Liability. None of the Trustee or the Securityholders shall have any personal liability for any liability or obligation of the Trust.

Section 2.12 Income Tax Treatment; Tax Returns and Reports.

(a) The Trust and the Trust Beneficial Interest Owner agree, and by acceptance of a beneficial interest in a Note each holder of a beneficial interest in a Note agrees, for U.S. federal, state and local income and franchise tax purposes, to treat (i) the Trust as a separate grantor trust, (ii) such Note as an ownership interest in such grantor trust and (iii) the Funding Agreement as debt of Principal Life.

(b) The Trustee shall prepare, file and sign or cause to be prepared, filed and signed, consistent with the treatment of the Trust as a grantor trust, all federal, state and local income tax and information returns and reports required to be filed with respect to the Trust and the Notes under any applicable federal, state or local tax statute or any rule or regulation under any of them. The Trustee shall keep copies or cause copies to be kept of the tax and information returns (including Internal Revenue Service Form 1041).

Section 2.13 Situs of Trust. The Trust shall be located in the jurisdiction set forth in the Trust Agreement. All bank accounts maintained by the Trustee on behalf of the Trust shall be located in such jurisdiction except that those accounts established under the Indenture shall be maintained with the Indenture Trustee in accordance with the Indenture. The Trust shall not have any employees in any jurisdiction other than in such jurisdiction. Except as set forth in the Program Documents, payments will be received by the Trust only in such jurisdiction and payments will be made by the Trust only from such jurisdiction.

ARTICLE 3  
PAYMENT ACCOUNT

Section 3.01 Payment Account.

(a) On the Original Issue Date, the Trustee shall establish a Payment Account. The Trustee and any agent of the Trustee shall have exclusive control and sole right of withdrawal with respect to the Payment Account for the purpose of making deposits in and withdrawals from the Payment Account in accordance with the Trust Agreement and the Indenture. Subject to the Indenture, all monies or other property received by the Trustee on behalf of the Trust in respect of the Collateral will be deposited in the Payment Account. All monies and other property deposited or held from time to time in the Payment Account shall be held by the Trustee in the Payment Account for the exclusive benefit of the Trust Beneficial Owner, subject to the security interest in the Collateral in favor of the Indenture Trustee on behalf of the Holders of the Notes, and for distribution by the Trustee as provided in the Trust Agreement, including (and subject to) any priority of payments provided for in the Trust Agreement.

(b) Except for payments made on the Trust Expiration Date or otherwise pursuant to Section 7.03 and subject to Section 3.01(a), all monies and other property deposited into the Payment Account shall be distributed by the Trust as follows:

first, to the Indenture Trustee for the payment of all amounts then due and unpaid upon the Notes, if any, in accordance with the Indenture; and

second, to the Trust Beneficial Owner all of the amounts that would be payable under clause first of Section 5.02 of the Indenture to the Trust Beneficial Owner if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes).

Any remaining monies and other property deposited into the Payment Account shall be distributed ratably in proportion to their original principal amounts to the Holders last noted in the Register as the Holders of the Notes and the Trust Beneficial Owner (as if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes)).

(c) The Trustee shall deposit in the Payment Account, promptly upon receipt, any payments received with respect to the Collateral. Amounts held in the Payment Account shall not be invested by the Trustee pending the distribution of such amounts to cover the Trust's obligations on the Notes or the Trust Beneficial Interest.

(d) Notwithstanding anything herein to the contrary, the Trustee, on behalf of the Trust, shall issue a standing order (the "Standing Order") to the Indenture Trustee pursuant to which the Indenture Trustee shall distribute all amounts due and unpaid under

Section 3.01(b). For so long as (i) the Trustee, on behalf of the Trust, has not rescinded the Standing Order and (ii) the Indenture Trustee is able to, and does, comply with the Standing Order, the Trustee will not be required to establish a Payment Account in accordance with Section 3.01.

ARTICLE 4  
TRUST SECURITIES

Section 4.01 Initial Ownership. Upon the creation of the Trust, the Trust Beneficial Owner shall be the sole beneficial owner of such Trust.

Section 4.02 Notes.

The Notes will be issued pursuant to and be governed by the Indenture.

Section 4.03 Registration of Transfer of Trust Beneficial Interest.

(a) The Trustee or its agent (in this capacity, the "Registrar") shall maintain a register or registers for the Trust for the purpose, subject to Section 4.06, of registering the transfer of the Trust Beneficial Interest and Notes (a "Securities Register").

(b) The Registrar shall not be required to register the transfer of the Trust Beneficial Interest in any manner inconsistent with the terms of the Trust Agreement or the Indenture.

Section 4.04 Persons Deemed Holders of Trust Securities. The Trustee and the Registrar shall treat the Person in whose name any Trust Beneficial Interest is registered as the owner of such Trust Beneficial Interest for all purposes whatsoever, and none of the Trustee and the Registrar shall be bound by any notice to the contrary. The Trustee shall treat the Person determined in accordance with Section 2.11 of the Indenture as the owner of the applicable Note(s) for all purposes whatsoever, and the Trustee shall not be bound by any notice to the contrary.

Section 4.05 Maintenance of Office. Subject to the provisions of the Indenture, the Trustee shall maintain an office or offices where notices and demands to or upon the Trustee in respect of the Trust Securities may be served. The Trustee initially designates its Corporate Trust Office as the office for such purposes. The Trustee shall give prompt written notice to the Trust Beneficial Owner and the Indenture Trustee of any change in the location of the register or any office or agency.

Section 4.06 Ownership of the Trust Beneficial Interest. On the Original Issue Date, the Trust Beneficial Owner shall acquire and, thereafter, retain beneficial and record ownership of the Trust Beneficial Interest. The Trust Beneficial Interest shall not be certificated. To the fullest extent permitted by law, any attempted transfer of the Trust Beneficial Interest shall be void.

ARTICLE 5  
REPRESENTATIONS AND WARRANTIES

Section 5.01 Trustee. The Trustee represents and warrants for the benefit of the Securityholders as follows:

(a) it is a national banking association duly organized, validly existing and in good standing under the laws of the United States and it is a "bank" within the meaning of Section 581 of the Code;

(b) it is a "United States person" within the meaning of Section 7701(a)(30) of the Code;

(c) it has full corporate or other power, authority and legal right to execute, deliver and perform its obligations under the Trust Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of the Trust Agreement;

(d) the Trust Agreement has been duly authorized, executed and delivered by it and constitutes the valid and legally binding agreement of it enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general principles of equity;

(e) neither the execution or delivery by it of the Trust Agreement, nor the performance by it of its obligations under the Trust Agreement, will (i) violate its organizational documents, (ii) violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties or assets held in the Trust pursuant to the provisions of, any indenture, mortgage, credit agreement, license or other agreement or instrument to which it is a party or by which it is bound which would materially and adversely affect the Trust, or (iii) violate any law, governmental rule or regulation of the United States governing the banking, trust or general powers of it or any order, judgment or decree applicable to it;

(f) the authorization, execution or delivery by it of the Trust Agreement and the consummation of any of the transactions by it contemplated by the Trust Agreement do not require the consent or approval of, the giving of notice to, the registration with or the taking of any other action with respect to any governmental authority or agency; and

(g) there are no proceedings pending or, to the best of its knowledge, threatened against or affecting it in any court or before any governmental authority, agency or arbitration board or tribunal which, individually or in the aggregate, would materially and adversely affect the Trust or would question the right, power and authority of it to enter into or perform its obligations under the Trust Agreement.

Section 5.02 Trust Beneficial Owner. The Trust Beneficial Owner hereby represents and warrants that, to the fullest extent permitted by law, it has irrevocably waived any right or interest it may have under the Trust Agreement, by operation of law or equity, to direct or otherwise require the Trustee to initiate or consent to any bankruptcy, insolvency or receivership proceedings, it being expressly understood that any such action by the Trustee shall be undertaken or refrained from, in the Trustee's sole and absolute discretion, without regard to any rights or interests of the Trust Beneficial Owner.

ARTICLE 6  
TRUSTEE

Section 6.01 General Authority.

(a) The Trustee shall conduct the affairs of the Trust in accordance with the terms of the Trust Agreement. Subject to the limitations set forth in Section 6.01(b), the Trustee shall have the power and authority to act on behalf of the Trust, with respect to the following matters:

(i) to execute and deliver the Notes and the Trust Beneficial Interest in accordance with the Trust Agreement and the Indenture;

(ii) to cause the Trust to perform the Trust Agreement and to enter into, and to execute, deliver and perform on behalf of itself, the Program Documents to which it is a party and such other certificates, other documents or agreements as may be necessary, contemplated by or desirable in connection with the purposes and function of the Trust or any of such Program Documents;

(iii) subject to the Indenture, to purchase, receive and maintain custody of the Funding Agreement and to exercise all of the rights, powers and privileges of an owner or policyholder of the Funding Agreement;

(iv) subject to the Indenture and the Guarantee, to receive and maintain custody of the Guarantee and to exercise all of the rights, powers and privileges of a beneficiary under the Guarantee;

(v) to grant to the Indenture Trustee a first priority perfected security interest in the Collateral and to collaterally assign the rights, title and interest of the Trust in such Collateral to the Indenture Trustee for the benefit of the Holders and to seek release of such security interest upon payment in full of all amounts required to be paid with respect to the Notes pursuant to the terms and conditions of the Notes or the Indenture;

(vi) to establish the Payment Account;

(vii) subject to Section 4.06, to cause any transfer of the Trust Beneficial Interest to be registered in accordance with the Trust Agreement;

(viii) to send notices regarding the Trust Securities, the Funding Agreement and the Guarantee to Principal Life, PFG, the Indenture Trustee, the Ratings Agencies, the Trust Beneficial Owner and the Relevant Agents in accordance with the Funding Agreement, the Guarantee, the Distribution Agreement and the Trust Agreement;

(ix) to take all actions necessary or appropriate to enable the Trust to comply with Section 2.12 regarding income tax treatment, tax returns and information reporting;

(x) after the occurrence of a Funding Agreement Event of Default actually known to a Responsible Officer of the Trustee, subject to the Indenture, to take any action as it may from time to time determine (based solely upon the advice of counsel) is necessary or advisable to give effect to the terms of the Trust Agreement and to protect and conserve the Collateral for the benefit of each Securityholder (without consideration of the effect of any such action on any particular Securityholder) and, within five Business Days after the occurrence of a Funding Agreement Event of Default actually known to a Responsible Officer of the Trustee, to give notice thereof to the Trust Beneficial Owner and the Indenture Trustee;

(xi) to the extent permitted by the Trust Agreement, to participate in the winding up of the affairs of and liquidation of the Trust; and

(xii) subject to the Indenture, to take any action and to execute any documents on behalf of the Trust, incidental to the foregoing as the Trustee may from time to time determine (based on the advice of counsel) is necessary or advisable to give effect to the terms of the Trust Agreement for the benefit of each Securityholder (without consideration of the effect of any such action on any particular Securityholder).

It is expressly understood and agreed that the Trustee shall be entitled to engage outside counsel, independent accountants and other experts appointed with due care to assist the Trustee in connection with the performance of its duties and powers set forth in this Section 6.01(a), including, without limitation, the preparation of all tax reports and returns, securities law filings, certificates, reports, opinions, notices or any other documents. The Trustee shall be entitled to rely conclusively on the advice of such counsel, accountants and other experts in the performance of all its duties under the Trust



Agreement and shall have no liability for any documents prepared by such counsel, accountants or experts or any action or inaction taken pursuant to the advice of such counsel, accountants or experts. Any expenses of such counsel, accountants and experts shall be paid by Principal Life in accordance with the applicable Expense and Indemnity Agreement to the extent provided therein.

(b) So long as the Trust Agreement remains in effect, the Trust (and the Trustee acting on behalf of the Trust) shall not undertake any business, activity or transaction except as expressly provided for or contemplated by the Trust Agreement or the Indenture. In particular, the Trust shall not, except as otherwise contemplated by the Indenture:

(i) sell, transfer, exchange, assign, lease, convey or otherwise dispose of any assets held by the Trust (owned as of the date of the Trust Agreement or thereafter acquired), including, without limitation, any portion of the Collateral, except as expressly permitted under the Indenture;

(ii) incur or otherwise become liable, directly or indirectly, for any Indebtedness or Contingent Obligation except for the Notes issued pursuant to the Indenture and the transactions contemplated under the Indenture;

(iii) engage in any business or activity other than in connection with, or relating to, (a) the performance of the Trust Agreement and the execution, delivery and performance of any documents (other than the Trust Agreement), including the Program Documents, relating to the Notes issued under the Indenture and the transactions contemplated thereby, and (b) the issuance of the Notes pursuant to the Indenture;

(iv) (a) permit the validity or effectiveness of the Indenture or any grant of security interest in or assignment for collateral purposes of the Collateral to be impaired, or permit a Lien created under the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations under any document or agreement assigned to the Indenture Trustee, except as may be expressly permitted under the Indenture, (b) create, incur, assume or permit any Lien or other encumbrance (other than a Lien created under the Indenture) on any of its properties or assets owned or thereafter acquired, or any interest therein or the proceeds thereof, or (c) permit a Lien created under the Indenture not to constitute a valid first priority perfected security interest in the Collateral;

(v) amend, modify or fail to comply with any material provision of the Trust Agreement except for any amendment or modification of the Trust Agreement expressly permitted thereunder;

(vi) own any subsidiary or lend or advance any funds to, or make any investment in, any Person, except for an investment in the Funding Agreement or the investment of any funds held by the Indenture Trustee, the Paying Agent, or the Trustee as provided in the Indenture or the Trust Agreement;

(vii) directly or indirectly declare or make any distribution or other payment to, or redeem or otherwise acquire or retire for value the interests of, the Trust Beneficial Owner if any amount under the Notes is due and unpaid, or directly or indirectly redeem or otherwise acquire or retire for value any Indebtedness or Contingent Obligation other than the Notes;

(viii) exercise any rights with respect to the Collateral except at the written direction of, or with the prior written approval of, the Indenture Trustee;

(ix) cause or, to the fullest extent permitted by law, permit the sale or other transfer of all or a portion of the Trust Beneficial Interest, or cause or, to the fullest extent permitted by law, permit the creation, incurrence, assumption or existence of any Lien on, all or a portion of the Trust Beneficial Interest;

(x) become an "investment company" or come under the "control" of an "investment company," as such terms are defined in the Investment Company Act;

(xi) enter into any transaction of merger or consolidation or liquidate or dissolve itself (or, to the fullest extent permitted by law, suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all the business or assets of, or any stock or other evidence of beneficial ownership of, any other Person;

(xii) take any action that would cause it not to be treated as a disregarded entity or as a grantor trust (assuming it was not a disregarded entity) for United States federal income tax purposes;

(xiii) have any subsidiaries, employees or agents other than the Trustee and other persons necessary to conduct its business and enter into transactions contemplated under the Program Documents;

(xiv) have an interest in any bank account other than (a) those accounts required under the Program Documents, and (b) those accounts expressly permitted by the Indenture Trustee; provided that any interest therein shall be charged or otherwise secured in favor of the Indenture Trustee;

(xv) permit any Affiliate, employee or officer of Principal Life or PFG or any agent appointed under the Distribution Agreement to be a trustee of the Trust;

(xvi) issue Notes under the Indenture unless (a) the Trust has purchased or will simultaneously purchase the Funding Agreement from Principal Life to secure such Notes, (b) Principal Life has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect the granting of a security interest in, and the making of an assignment for collateral purposes of, the Funding Agreement by the Trust, to the Indenture Trustee, (c) PFG has issued the Guarantee to the Trust, which the Trust has collaterally assigned to the Indenture Trustee on behalf of the Holder of Notes and in which the Trust has granted a security interest or will simultaneously grant a security interest to the Indenture Trustee on behalf of the Holders of Notes (and PFG has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect such collateral assignment and security interest) and (d) the Trust has taken such other steps as may be necessary to cause the grant of security interest in, and assignment for collateral purposes of, the Collateral to the Indenture Trustee to be perfected for purposes of the UCC or effective against the Trust's creditors and subsequent purchasers of the Collateral pursuant to insurance or other applicable law;

(xvii) commingle the assets of the Trust with assets of any Affiliates (including any other trust organized under the Program), or guarantee any obligation of any Affiliates (including any other trust organized under the Program); or

(xviii) maintain any joint account with any Person, become a party, whether as co-obligor or otherwise, to any agreement to which any Person is a party (other than in respect of the Program Documents), or become liable as a guarantor or otherwise with respect to any Indebtedness or contractual obligation of any Person.

(c) The Trust and the Trustee acting on behalf of the Trust shall not, notwithstanding any other provision of the Trust Agreement, take any action that would cause the Trust not to be treated as a disregarded or treated as a grantor trust (assuming it was not a disregarded entity) for U.S. federal income tax purposes.

(d) The Trustee shall, based on the advice of counsel, defend against all claims and demands of all Persons at any time claiming any Lien on any of the assets of the Trust adverse to the interest of the Trust or any Securityholder, other than the security interests in the Collateral granted in favor of the Indenture Trustee for the benefit of each Holder of the Notes pursuant to the Indenture.

(e) If and for so long as the Funding Agreement and the Guarantee are held by the Trustee for the benefit of the Trust, the Trustee shall not (i) waive any default under the Funding Agreement or Guarantee or (ii) consent to any amendment, modification or termination of the Funding Agreement or the Guarantee, without, in each case, obtaining the prior approval of the Indenture Trustee in accordance with the Indenture and an opinion of counsel experienced in such matters to the effect that any such action shall not cause the Trust not to be treated as a grantor trust for U.S. federal income tax purposes.

(f) The Trustee is authorized and directed to conduct the affairs of the Trust and to operate the Trust (i) so that the Trust will not become required to register as an "investment company" under the Investment Company Act, and (ii) so that the Trust will not fail to be treated as a disregarded entity or as a grantor trust (assuming it was not a disregarded entity) for U.S. federal income tax purposes. In connection with the preceding sentence, the Trustee shall have no duty to determine whether any action it takes complies with the preceding sentence and shall be entitled to rely conclusively on an opinion of counsel with respect to any such matters.

Section 6.02 General Duties. It shall be the duty of the Trustee to discharge, or cause to be discharged, all of its responsibilities pursuant to the terms of the Trust Agreement, or any other documents or instruments to which it is a party, and to administer the Trust, in accordance with the provisions of the Trust Agreement and the other Program Documents and any other documents or instruments to which the Trust is a party.

#### Section 6.03 Specific Duties.

(a) The Trustee undertakes to perform only such duties as are specifically set forth in the Trust Agreement and as it may be directed from time to time by the Trust Beneficial Owner and the Indenture Trustee in accordance with the terms of the Trust Agreement and the Indenture.

(b) The Trustee agrees that it will not manage, control, use, sell, dispose of or otherwise deal with the Collateral except as expressly required or permitted by the terms of the Trust Agreement and the Indenture.

Section 6.04 Acceptance of Trust and Duties; Limitation on Liability. The Trustee accepts the trust created by the Trust Agreement and agrees to perform its duties under the Trust Agreement with respect to the same, but only upon the terms of the Trust Agreement. No implied covenants or obligations shall be read into the Trust Agreement. The Trustee shall not be liable under the Trust Agreement under any circumstances or for any action or failure to act, except for (i) its own willful misconduct, bad faith or negligence or (ii) the inaccuracy of any representation or warranty contained in the Trust Agreement expressly made by it. In particular (but without limitation), subject to the exceptions set forth in the preceding sentence:

(a) the Trustee shall not be liable for any error of judgment made in good faith by any of its responsible officers, unless such error of judgment constitutes negligence;

(b) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the written instructions of the Trust Beneficial Owner or the Indenture Trustee or pursuant to the advice of counsel, accountants or other experts selected by it in good faith, so long as such action or omission is consistent with the terms of the Trust Agreement and the Indenture;

(c) no provision of the Trust Agreement shall require the Trustee to expend or risk personal funds or otherwise incur any financial liability in the performance of any of its rights or powers hereunder if the Trustee has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured or provided to it;

(d) under no circumstances shall the Trustee be liable for indebtedness or other obligations evidenced by or arising under the Trust Agreement, the Funding Agreement, the Guarantee or any related document, including the principal of and interest on the Notes and payments on the Trust Beneficial Interest;

(e) the Trustee shall not be responsible for, or in respect of, the validity or sufficiency of the Trust Agreement or any related document or for the due execution of the Trust Agreement by any party (except by the Trustee itself) or for the form, character, genuineness, sufficiency, value or validity of any of the Collateral, other than, in the case of the Trustee, the execution of any certificate;

(f) the Trustee shall not be liable for any action, inaction, default or misconduct of the Indenture Trustee or any Paying Agent under the Indenture, the Notes or any related documents or otherwise, and the Trustee shall not have any obligation or liability to perform the obligations of the Trust under the Trust Agreement or any related document or under any federal, state, foreign or local tax or securities law, in each case, that are required to be performed by other Persons, including the Indenture Trustee under the Indenture;

(g) the Trustee shall not be liable for any action, inaction, default or misconduct of Principal Life or PFG, and the Trustee shall not have any obligation or liability to perform the obligations of Principal Life under the Funding Agreement or PFG under the Guarantee or any related documents;

(h) the Trustee shall not be under any obligation to exercise any of the rights or powers vested in it by the Trust Agreement, or to institute, conduct or defend any litigation under the Trust Agreement or otherwise or in relation to the Trust Agreement or

any related document, at the request, order or direction of any Person unless such Person has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred by the Trustee. The right of the Trustee to perform any discretionary act enumerated in the Trust Agreement or in any related document shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of any such act;

(i) except as expressly provided in the Trust Agreement in accepting the trusts created by the Trust Agreement the Trustee acts solely as trustee under the Trust Agreement and not in its individual capacity, and all persons having any claim against the Trustee by reason of the transactions contemplated by the Trust Agreement shall look only to the Trust's property for payment or satisfaction thereof;

(j) the Trustee shall not have any responsibility or liability for or with respect to the genuineness, value, sufficiency or validity of any Collateral, and the Trustee shall in no event assume or incur any liability, duty or obligation to the Trust Beneficial Owner or any other Person other than as expressly provided for in the Trust Agreement;

(k) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note or other paper or document;

(l) every provision of the Trust Agreement relating to the Trustee shall be subject to the provisions of this Article 6;

(m) except in accordance with the written instructions furnished by the Trust Beneficial Owner or as provided in the Trust Agreement, the Trustee shall have no duty (i) to see to any recording or filing of any document, (ii) to confirm or verify any financial statements of the Trust Beneficial Owner or the Indenture Trustee, (iii) to inspect the Trust Beneficial Owner's or the Indenture Trustee's books and records at any time or (iv) to see to the payment or discharge of any tax, assessment or other governmental charge or any lien or encumbrance of any kind owing with respect to, assessed or levied against any part of the Trust, except to the extent the Trustee has received funds, on behalf of the Trust, pursuant to the applicable Expense and Indemnity Agreement from Principal Life in satisfaction of any such tax, assessment or other governmental charge or any lien or encumbrance of any kind and in accordance with payment or transfer instructions provided by Principal Life;

(n) the Trustee shall have no duty or obligation to manage, control, use, sell, dispose of or otherwise deal with the Trust or to otherwise take or refrain from taking any action under the Trust Agreement, except as expressly required by the terms of the Trust Agreement, or as expressly provided in written instructions from the Trust Beneficial Owner, and in no event shall the Trustee have any implied duties or obligations under the

Trust Agreement; the Trustee nevertheless agrees that it will, at its own cost and expense, promptly take all action as may be necessary to discharge any liens on any part of the property of the Trust which result from claims against the Trustee personally that are not related to the ownership or the administration of the property of the Trust or the transactions contemplated by the Program Documents;

(o) the Trustee shall not be required to take any action under the Trust Agreement if the Trustee shall reasonably determine or shall have been advised by counsel that such action is contrary to the terms of the Trust Agreement or is otherwise contrary to law;

(p) the Trustee may fully rely upon and shall have no liability in connection with calculations or instructions forwarded to the Trustee by the Trust Beneficial Owner or the Indenture Trustee, nor shall the Trustee have any obligation to furnish information to any Trust Beneficial Owner or other Person if it has not received such information as it may need from the Trust Beneficial Owner, or the Indenture Trustee or any other Person;

(q) the Trustee shall not be liable with respect to any act or omission in good faith in accordance with the advice or direction of the Trust Beneficial Owner or the Indenture Trustee. Whenever the Trustee is unable to decide between alternative courses of action permitted or required by the terms of the Trust Agreement, or is unsure as to the application, intent, interpretation or meaning of any provision hereof, the Trustee may give notice (in such form as shall be appropriate under the circumstances) to the Trust Beneficial Owner requesting instructions as to the course of action to be adopted, and, to the extent the Trustee acts in good faith in accordance with any such instruction received, the Trustee shall not be liable on account of such action to any Person. If the Trustee shall not have received appropriate instructions within ten days of such notice (or within such shorter period of time as reasonably may be specified in such notice or may be necessary under the circumstances), it may, but shall be under no duty to, take or refrain from taking such action which is consistent, in its view, with the Trust Agreement and as it shall deem to be in the best interest of the relevant Trust Beneficial Owner, and the Trustee shall have no liability to any Person for such action or inaction;

(r) in no event whatsoever shall the Trustee be personally liable for any representation, warranty, covenant, agreement, indebtedness or other obligation of the Trust; and

(s) the Trustee shall incur no liability if, by reason of any provision of any present or future law or regulation thereunder, or by any force majeure event, including but not limited to natural disaster, war or other circumstances beyond its control, the Trustee shall be prevented or forbidden from doing or performing any act or thing which the terms of the Trust Agreement provide shall or may be done or performed.

Section 6.05 Reliance; Advice of Counsel.

(a) The Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper reasonably believed by it in good faith to be genuine and signed by the proper party or parties. The Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the manner of ascertainment of which is not specifically prescribed in the Trust Agreement, the Trustee may for all purposes of the Trust Agreement rely on a certificate, signed by the president or any vice president or by the treasurer or any assistant treasurer or the secretary or any assistant secretary of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to the Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon.

(b) In the exercise or administration of the Trust, the Trustee (i) may act directly or, at the expense of the Trust, through agents or attorneys pursuant to agreements entered into with any of them, and the Trustee shall not be liable for the action, inaction, default or misconduct of such agents or attorneys if such agents or attorneys shall have been selected by the Trustee in good faith and with reasonable care, and (ii) may consult with counsel, accountants and other skilled persons to be selected in good faith and with reasonable care and employed by it, and it shall not be liable for anything done, suffered or omitted to be done in good faith by it in accordance with the written opinion or advice of any such counsel, accountants or other skilled persons.

Section 6.06 Delegation of Authorities and Duties. The Trustee delegates to the Indenture Trustee all duties required to be performed by the Indenture Trustee pursuant to the terms of the Trust Agreement and the Indenture. The Trustee undertakes no responsibility for the performance, or non-performance, of any duties delegated to the Indenture Trustee under the Trust Agreement.

ARTICLE 7  
LIQUIDATION AND TERMINATION

Section 7.01 Termination Upon the Trust Expiration Date. Unless earlier terminated, the Trust shall terminate on the Trust Expiration Date.

Section 7.02 Termination of Agreement. The Trust Agreement and the Trust created and continued thereby shall terminate upon the latest to occur of the following: (a) a distribution by the Trustee to Securityholders upon the liquidation of the Trust pursuant to Section 7.03 of all amounts required to be distributed under the Trust Agreement upon the final payment of the Trust Securities; (b) the payment of, or



reasonable provision for payment of, all expenses and other liabilities owed by the Trust; and (c) the discharge of all administrative duties of the Trustee including the performance of any tax reporting obligations with respect to the Trust or the Securityholders.

Section 7.03 Liquidation. On the Trust Expiration Date, the remaining Collateral and any other assets held in the Trust shall be liquidated and distributed as follows: (i) the Trust shall first pay all amounts due and unpaid on the Notes, if any, in accordance with the Indenture, (ii) the Trust shall then pay any other claims, including expenses relating to such liquidation to the extent not paid, or reasonably provided for, pursuant to the applicable Expense and Indemnity Agreement, and (iii) the Trust shall then pay to the Trust Beneficial Owner all of the amounts that would be payable under clause first of Section 5.02 of the Indenture to the Trust Beneficial Owner if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes). Any remaining monies and other property shall be paid ratably in proportion to their original principal amounts to the Holders last noted in the Register as the Holders of the Notes and the Trust Beneficial Owner (as if the Trust Beneficial Owner held a Note with an original principal amount of \$15 (multiplied by the issue price of the Notes in the case of Notes that are discount notes) and as if each such Holder continued to hold its Notes after all amounts due on such Notes under the Indenture have been paid).

#### ARTICLE 8 SUCCESSOR AND ADDITIONAL TRUSTEES

Section 8.01 Eligibility Requirements for the Trustee. The Trustee shall at all times (a) be a Person organized and doing business under the laws of the United States or the State of New York, (b) be authorized to exercise corporate trust powers, (c) have a combined capital and surplus of at least \$50,000,000 and be subject to supervision or examination by Federal or State authorities, (d) have (or have a parent which has) a rating of at least Baa3 by Moody's Investors Service, Inc. or BBB- by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., (e) be a "bank" within the meaning of Section 581 of the Code and (f) be a "United States person" within the meaning of Section 7701(a)(30) of the Code. In addition, the Trustee shall be an entity with its Corporate Trust Office in the State of New York. If the Trustee shall publish reports of condition at least annually, pursuant to applicable law or to the requirements of the aforesaid supervising or examining authority, then for the purpose of this Section 8.01, the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 8.01, the Trustee shall resign immediately in the manner and with the effect specified in Section 8.02.

Section 8.02 Resignation or Removal of the Trustee. The Trustee may at any time resign and be discharged from its duties under the Trust Agreement and the Trust created by the Trust Agreement by giving written notice thereof to the Trust Beneficial Owner and the Indenture Trustee at least 60 days before the date specified in such instrument. Upon receiving such notice of resignation, the Trust Beneficial Owner shall promptly appoint a successor Trustee meeting the qualifications set forth in Section 8.01 by written instrument, in duplicate, one copy of which instrument shall be delivered to each of the resigning Trustee, the successor Trustee, any remaining Trustees, the Indenture Trustee and Principal Life. If no successor Trustee shall have been so appointed and have accepted appointment within 90 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If at any time the Trustee shall cease to be eligible in accordance with the provisions of Section 8.01 and shall fail to resign after written request therefor by the Trust Beneficial Owner and the Indenture Trustee, or if at any time the Trustee shall be legally unable to act or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Trust Beneficial Owner and the Indenture Trustee may remove such Trustee. If the Trust Beneficial Owner and the Indenture Trustee shall remove the Trustee under the authority of the immediately preceding sentence, the Trust Beneficial Owner shall promptly appoint a successor Trustee meeting the qualification requirements of Section 8.01 by (i) the execution of a written instrument, one copy of which instrument shall be delivered to each of the outgoing Trustee so removed, the successor Trustee, the Indenture Trustee and Principal Life and (ii) the payment of all fees and expenses owed to the outgoing Trustee.

Any resignation or removal of the Trustee and appointment of a successor Trustee pursuant to any of the provisions of this Section 8.02 shall not become effective until all fees and expenses, including any indemnity payments, due to the outgoing Trustee have been paid and until acceptance of appointment by the successor Trustee pursuant to Section 8.03.

Section 8.03 Successor Trustee. Any successor Trustee appointed pursuant to Section 8.02 shall execute, acknowledge and deliver to the Trust Beneficial Owner, the Indenture Trustee and the predecessor Trustee an instrument accepting such appointment under the Trust Agreement, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties, and obligations of its predecessor under the Trust Agreement, with like effect as if originally named as Trustee. The predecessor Trustee shall deliver to the successor Trustee all documents and statements and monies held by it under the Trust Agreement; and the

predecessor Trustee shall execute and deliver such instruments and do such other things as may reasonably be required for fully and certainly vesting and confirming in the successor Trustee all such rights, powers, duties and obligations.

No successor Trustee shall accept appointment as provided in this Section 8.03 unless at the time of such acceptance such successor Trustee shall be eligible pursuant to Section 8.01.

Section 8.04 Merger or Consolidation of Trustee. Any Person into which the Trustee may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person succeeding to all or substantially all of the corporate trust business of the Trustee, shall, without the execution or filing of any instrument or any further act on the part of any of the parties to the Trust Agreement, anything in the Trust Agreement to the contrary notwithstanding, be the successor of the Trustee under the Trust Agreement; provided, such Person shall be eligible pursuant to Section 8.01.

Section 8.05 Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of the Trust Agreement, at any time, for the purpose of meeting any legal requirements of any jurisdiction in which any part of any Collateral may at the time be located, the Trustee shall have the power and shall execute and deliver all instruments to appoint one or more Persons approved by the Trustee to act as co-trustee, jointly with it, or as separate trustee or separate trustees, of all or any part of any Collateral, and subject to Section 2.08 to vest in such Person, in such capacity, such title to any Collateral, or any part thereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee under the Trust Agreement shall be required to meet the terms of eligibility as a successor Trustee pursuant to Section 8.03 and no notice of the appointment of any co-trustee or separate trustee shall be required; provided, however, that any co-trustee or separate trustee must be a "United States person" within the meaning of Section 7701(a)(30) of the Code and a "bank" within the meaning of Section 581 of the Code.

(b) Each separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties, and obligations conferred or imposed upon the Trustee shall be conferred upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Trustee

shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the discretion of the trustee;

(ii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee; and

(iii) no trustee shall be personally liable by reason of the act or omission of any other trustee under the Trust Agreement.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustee and co-trustee, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Section 8.05 and the conditions of this Article 8. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instruments of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of the Trust Agreement, specifically including every provision of the Trust Agreement relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Each such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time appoint the Trustee as its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of the Trust Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor Trustee.

Section 8.06 Trustee May Own Notes. Except to the extent prohibited under the terms of the Notes, the Trustee, in its individual or any other capacity, may become the beneficial owner or pledgee of Notes, to the extent that such ownership does not inhibit the Trust from relying on Rule 3a-7 promulgated under the Investment Company Act, with the same rights as it would have if it were not the Trustee; provided, that any Notes so owned or pledged shall not be entitled to participate in any decisions made or instructions given to the Trustee or the Indenture Trustee by the Holders as a group. The Trustee may deal with the Trust and the Trust Beneficial Owner in banking and trustee transactions with the same rights as it would have if it were not the Trustee.

ARTICLE 9  
VOTING; ACTS OF SECURITYHOLDERS; MEETINGS

Section 9.01 Limitations on Voting Rights. Except as provided in the Trust Agreement or in the Indenture or as otherwise required by law, no Holder of Trust Securities shall have any right to vote or in any manner otherwise control the administration, operation and management of the Trust or the obligations of the parties to the Trust Agreement, nor shall anything in the Trust Agreement set forth, or contained in the terms of the Trust Securities, be construed so as to constitute the Securityholders from time to time as partners or members of an association.

Section 9.02 Meetings of the Trust Beneficial Owner. No annual or other meeting of the Trust Beneficial Owner is required to be held.

ARTICLE 10  
MISCELLANEOUS PROVISIONS

Section 10.01 Limitation on Rights of Securityholders.

(a) The death, bankruptcy, termination, dissolution or incapacity of any Person having an interest, beneficial or otherwise, in Trust Securities or the Trust shall not operate to terminate the Trust Agreement, nor to annul, dissolve or terminate the Trust, nor to entitle the legal successors, representatives or heirs of such Person or any Securityholder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the arrangements contemplated by the Trust Agreement, nor otherwise affect the rights, obligations and liabilities of the parties to the Trust Agreement or any of them.

(b) Except as provided in the Indenture, no Securityholder shall have any right by virtue of any provision of the Trust Agreement to institute any suit, action or proceeding in equity or at law with respect to the Trust Agreement, unless (i) the Securityholders shall have made written request upon the Trustee to institute such suit, action or proceeding in the name of the Trust and shall have offered to the Trustee and the Trust such reasonable indemnity as they may require against the costs, expenses and liabilities to be incurred thereby and (ii) the Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such suit, action or proceeding. It is expressly understood and covenanted by each Securityholder with every other Securityholder, the Trust and the Trustee, that no one or more Securityholder shall have any right in any manner whatever by availing itself or themselves of any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Securityholder, or to obtain or seek to obtain priority over or preference to any other such Securityholder, or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement.

Section 10.02 Amendment.

(a) The Trust Agreement may be amended from time to time by the Trustee and the Trust Beneficial Owner, by, and only by, a written instrument executed by the Trustee and the Trust Beneficial Owner, in any way that is not inconsistent with the intent of the Trust Agreement, including, without limitation, (i) to cure any ambiguity, (ii) to correct, supplement or modify any provision in the Trust Agreement that is inconsistent with another provision in the Trust Agreement or (iii) to modify, eliminate or add to any provisions of the Trust Agreement to the extent necessary to ensure that the Trust will be classified for U.S. federal income tax purposes as disregarded or treated as a grantor trust (assuming that the Trust was not a disregarded entity) at all times or to ensure that the Trust will not be required to register as an investment company under the Investment Company Act and no such amendment shall require the consent of any other Securityholder, except to the extent specified in Sections 10.02(b) and 10.02(c).

(b) For so long as any Trust Securities remain outstanding, except as provided in Section 10.02(c), any amendment to the Trust Agreement that would adversely affect, in any material respect, the terms of any Notes, other than any amendment of the type contemplated by clause (iii) of Section 10.02(a), shall require the prior consent of the Holders of a majority of the outstanding principal amount of the Notes.

(c) For so long as any Trust Securities remain outstanding, the Trust Agreement may not be amended to (i) change the amount or timing of any payment of any Trust Securities or (ii) impair the right of any Securityholder to institute suit for the enforcement of any right for principal and interest or other distribution without the consent of each affected Securityholder.

(d) The Trustee shall not be required to enter into any amendment to the Trust Agreement which affects its own rights, duties or immunities under the Trust Agreement.

(e) Prior to execution of any amendment to the Trust Agreement, the Trustee shall be entitled to an opinion of counsel as to whether such amendment is permitted by the terms of the Trust Agreement and whether all conditions precedent to such amendment have been met.

(f) Promptly after the execution of any such amendment or consent, the Trustee shall furnish a copy of such amendment or consent (including those obtained or effected hereby) to the Indenture Trustee, the Trust Beneficial Owner, the agents under the Distribution Agreement and the Rating Agencies.

(g) Notwithstanding any other provision of the Trust Agreement, (i) no amendment to the Trust Agreement may be made if such amendment would cause the Trust not to be treated as disregarded or treated as a grantor trust (assuming that the Trust

was not disregarded) for U.S. federal income tax purposes and (ii) no amendment to the Trust Agreement may be made without the prior consent of Principal Life.

Section 10.03 Notice. All demands, notices, instructions and other communications shall be in writing (including telecopied or telegraphic communications) and shall be personally delivered, mailed or transmitted by telecopy or telegraph, respectively, addressed as set forth below:

If to the Trustee:

U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, New York 10005  
Attention: Adam Berman  
Facsimile: (212) 509-3384

If to the Trust Beneficial Owner:

GSS Holdings II, Inc.  
445 Broad Hollow Road, Suite 239  
Melville, New York 11747  
Attention: Andy Stidd  
Facsimile: (212) 302-8767

If to the Indenture Trustee, at

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Attention: Nancy Forte  
Facsimile: (212) 657-3862

or at such other address as shall be designated by any such party in a written notice to the other parties. Notwithstanding the foregoing, any notice required or permitted to be mailed to the Trust Beneficial Owner shall be given by first class mail, postage prepaid, at the address of the Trust Beneficial Owner as shown in the Securities Register, and any notices mailed within the time prescribed in the Trust Agreement shall be conclusively presumed to have been duly given, whether or not the Trust Beneficial Owner received such notice. Any notice required or permitted to be mailed to any Holder of a Note shall be given as specified in the Indenture.

Section 10.04 No Recourse. The Trust Beneficial Owner acknowledges that the Trust Beneficial Interest represents a beneficial interest in the Trust only and does not represent an obligation of Principal Life, the Trustee, the Indenture Trustee or any Affiliate of any of the foregoing and no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in the Trust Agreement or the Indenture.

Section 10.05 No Petition. To the extent permitted by applicable law, each of the Trustee and the Trust Beneficial Owner covenants and agrees that it will not institute against, or join with any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under the laws of any jurisdiction. This Section 10.05 shall survive termination of the Trust Agreement.

Section 10.06 Governing Law. The Trust Agreement shall be governed by and construed in accordance with the laws of the jurisdiction specified in the Trust Agreement without regard to the principles of conflicts of laws thereof and the obligations, rights and remedies of the parties under the Trust Agreement shall be determined in accordance with such laws.

Section 10.07 Severability. If any provision in the Trust Agreement shall be invalid, illegal or unenforceable, such provisions shall be deemed severable from the remaining provisions of the Trust Agreement and shall in no way affect the validity or enforceability of such other provisions of the Trust Agreement.

Section 10.08 Trust Securities Nonassessable and Fully Paid. Securityholders shall not be personally liable for the obligations of the Trust. The fractional undivided beneficial interest in the assets held in the Trust represented by the Trust Beneficial Interest shall be nonassessable for any losses or expenses related to the Trust or for any reason whatsoever. The Notes, upon execution thereof by the Trustee pursuant to the Indenture and upon receipt of payment therefore, are and shall be deemed fully paid.

Section 10.09 Third-Party Beneficiaries. The Trust Agreement shall inure to the benefit of and be binding upon the parties thereto and their respective successors and permitted assigns. Except as otherwise provided in the Trust Agreement, no other Person shall have any right or obligation thereunder.



STANDARD LICENSE AGREEMENT TERMS

This document constitutes the Standard License Agreement Terms, dated as of March 5, 2004, which are incorporated by reference in the License Agreement (specified in Section B of the Omnibus Instrument as defined below) between Principal Financial Services, Inc., an Iowa corporation with its principal place of business at 711 High Street, Des Moines, Iowa 50392 (the "Licensor"), and the Trust named in the Omnibus Instrument (the "Licensee").

These Standard License Agreement Terms shall be of no force and effect unless and until incorporated by reference in, and then only to the extent not modified by, a License Agreement.

The following terms and provisions shall govern the activities of the Licensee subject to contrary terms and provisions expressly adopted in the License Agreement, which contrary terms, if any, shall be controlling.

W I T N E S S E T H:

WHEREAS, the Licensor is the owner of certain trademarks and service marks and registrations and pending applications therefor, and may acquire additional trademarks and service marks in the future, all as defined below;

WHEREAS, the Licensee desires to use certain of the Licensor's trademarks and service marks in connection with the Licensee's activities, as described more fully below; and

WHEREAS, the Licensor and the Licensee wish to formalize the agreement between them regarding the Licensee's use of the Licensor's marks.

NOW, THEREFORE, in consideration of the mutual promises set forth in these Standard License Agreement Terms and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1  
Definitions

Section 1.01 Definitions. Capitalized words or phrases used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture between the Licensee and Citibank, N.A., as indenture trustee, dated as of the date specified in the Omnibus Instrument (the "Indenture").

Section 1.02 The following terms have the meanings set forth below:

"Agreement" means a License Agreement substantially in the form included in Section B of the Omnibus Instrument, as amended, modified or supplemented from time to time, that incorporates by reference these Standard License Agreement Terms.

"Licensed Marks" means all marks listed in the attached Appendix A, as amended from time-to-time by the parties, as provided for in Article 5.

"Licensed Services" means the activities undertaken by the Licensee, in connection with the establishment and conduct of the Program established by Principal Life for the issuance of debt obligations of the Licensee, such as the issuance of Notes to investors and any actions incident to the foregoing.

"Omnibus Instrument" means the omnibus instrument pursuant to which certain Program Documents are executed and the Trust is established.

"Territory" means: world-wide.

## ARTICLE 2 Grant of License

Subject to the terms and conditions set forth in the Agreement, the Licensor hereby grants to the Licensee for the duration of the Agreement a non-exclusive, non-transferable, royalty-free right and license to use the Licensed Marks in connection with the Licensed Services within the Territory. The Licensee agrees and acknowledges that the limited rights and licenses granted in this Article 2 are revocable by the Licensor immediately and that the Agreement is terminable by the Licensor as provided in Article 8.

## ARTICLE 3 Ownership and Maintenance of the Licensed Marks

Section 3.01 The Licensee acknowledges that the Licensor is the sole owner of the Licensed Marks, agrees that it will do nothing inconsistent with such ownership, agrees that all use of the Licensed Marks by the Licensee, including all goodwill associated therewith, shall inure solely to the benefit of the Licensor, and agrees to assist the Licensor in executing any additional documents that may be necessary to effect the purposes of this provision, including but not limited to the execution of any and all documents required by governmental agencies in order to register or maintain the current registrations of the Licensed Marks. The Licensee agrees that it will not represent that it has any ownership interest in the Licensed Marks or any registration thereof. The Licensee acknowledges the validity of the Licensed Marks and agrees that it will not, directly or indirectly, attack or challenge in any way the validity of the Licensed Marks, the Licensor's rights in and to the Licensed Marks or the validity or enforceability of the Agreement. The Licensee acknowledges that nothing in the Agreement shall give the Licensee any right, title or interest in the Licensed Marks or any goodwill associated therewith, other than those rights expressly granted under the Agreement.

Section 3.02 The Licensee acknowledges that its use of a Licensed Mark of the Licensor prior to the Agreement creates no ownership rights for the Licensee in a Licensed Mark in any jurisdiction. Upon termination of the rights granted by the Agreement, the Licensee agrees it shall not claim any ownership rights to any Licensed Mark of the Licensor as a result of such use.

Section 3.03 The Licensor shall use commercially reasonable efforts to maintain the Licensed Marks and all registrations thereof and/or applications therefor in the Territory. The Licensee shall execute all documents as are reasonably necessary or expedient to aid in, and shall otherwise cooperate at the Licensor's expense with, the Licensor's efforts to prepare, obtain, file, record and maintain all such registrations and applications.

Section 3.04 The Licensor shall have no further maintenance obligations as to the Licensed Marks or any registration thereof or application therefor upon giving written notice to the Licensee that it does not intend to continue such maintenance; provided, however that the Licensor shall have no such right of termination of its maintenance obligations in the event any series of Notes is outstanding. Notwithstanding anything to the contrary contained herein, after giving such notice, the Licensor shall not be liable to the Licensee in any manner for any failure by the Licensor to maintain any Licensed Marks.

#### ARTICLE 4 Quality Control

Section 4.01 At all times, the Licensee agrees to use the Licensed Marks in the Territory only in accordance with such quality standards and specifications as may be established by the Licensor and communicated to the Licensee from time to time. All use of the Licensed Marks made by the Licensee hereunder shall faithfully reproduce the design and appearance of the Licensed Marks as reflected on Appendix A.

Section 4.02 The Licensee agrees that the nature and quality of all Licensed Services shall conform to the quality standards and specifications, as may be established by the Licensor and communicated to the Licensee from time to time, and shall not deviate materially from the current quality of services and products included in the Licensed Services.

Section 4.03 The Licensor has the sole and exclusive right to control the appearance of the Licensed Marks, including the quality of the mark in the Licensed Marks. The Licensor shall have the right to inspect, upon reasonable notice and at all reasonable times, the business facilities and records of the Licensee and, upon reasonable request, to obtain written materials of the Licensee at any time during the term of the Agreement so that the Licensor may determine whether the Licensee is appropriately maintaining the Licensor's quality standards pertaining to the Licensed Marks and to the Licensed Services. The Licensee will immediately modify or discontinue any use of the Licensed Marks that the Licensor deems not to be in compliance with its quality standards.

Section 4.04 Upon request by the Licensor, the Licensee shall provide the Licensor with representative samples of all promotional materials, packaging, labels, advertisements or any other materials that include any of the Licensed Marks so that the Licensor may ensure that said materials are in conformance with the Licensor's quality standards.

Section 4.05 The Licensee agrees that all activities conducted in accordance with the Agreement shall be in conformance with all applicable laws, rules and regulations. The Licensee shall affix to all materials that bear a Licensed Mark, including, but not limited to, all stationery, labels, packaging, advertising and promotional materials, manuals, invoices and all other printed materials, (a) notices in compliance with applicable trademark laws and (b) such legend as the Licensor may reasonably designate by written notice and is required or otherwise reasonably necessary to allow adequate protection of the Licensed Marks and the benefits thereof under applicable trademark laws from time to time.

#### ARTICLE 5 Amendment of Agreement

The Agreement may be amended at any time by the parties to add or delete Licensed Marks or to modify the scope of Licensed Services. Such amendment(s) may be accomplished by a simple letter agreement outlining the amendment(s) and signed by both parties.

#### ARTICLE 6 Manner of Use

Section 6.01 The Licensee agrees to use the Licensed Marks only in the form and manner, and with appropriate ownership legends, as prescribed from time to time by the Licensor.

Section 6.02 The Licensee shall have the right to use the marks shown in Appendix A in connection with the Licensee's name, but, aside from this right, the Licensee shall not have the right to (a) change or modify the Licensed Marks, or create any design variation of the Licensed Marks, without obtaining the prior written consent of the Licensor, (b) join any name, mark or logo with the Licensed Marks so as to form a composite trade name or mark, (c) use the Licensed Marks in any manner that reflects improperly upon the Licensed Marks or (d) use any other mark that is confusingly similar to the Licensed Marks.

Section 6.03 The Licensee's use of Licensed Marks for any Licensed Services other than the Program is subject to the prior written approval of the Licensor.

Section 6.04 The Licensee shall not at any time do or suffer to be done any act or thing, including, without limitation, opposing the Licensor's registration of the Licensed Marks, that will in any way impair the Licensor's rights in the Licensed Marks.

Section 6.05 The Licensee shall promptly notify the Licensor of any country in which the Licensee intends to use a Licensed Mark. The Licensee hereby notifies the Licensor that the

Licensee intends to use the Licensed Marks in the United States. The Licensor may, but shall have no obligation to, apply for trademark registration in such country, or otherwise initiate action to protect its trademark rights in that country. If necessary or requested by the Licensor, the Licensee shall join in such application, shall execute any documents and shall take any action as may be or requested by the Licensor to implement such application or to retain, enforce or defend the Licensed Marks.

Section 6.06 The Licensee shall not at any time, without the prior written consent of the Licensor, acquire a registration or file and prosecute a trademark application or applications to register the Licensed Marks, or any component, variation or derivation thereof, or any name or mark confusingly similar thereto, for any goods or services anywhere in the world. If the Licensee at any time, without the prior written consent of the Licensor, files or causes to be filed, in its own name or otherwise on its behalf, an application to register or otherwise takes steps under applicable laws to obtain trademark protection of the Licensed Marks in any country, territory or jurisdiction, the Licensee shall, at the direction of the Licensor, either (a) assign and transfer to the Licensor, without further consideration, all right, title and interest in or to the Licensed Marks in such country, territory or jurisdiction, or (b) surrender and abandon such registration or application for registration.

#### ARTICLE 7 Infringement or Dilution Proceedings

Section 7.01 The Licensee agrees to promptly notify the Licensor of any unauthorized use of any of the Licensed Marks as such unauthorized use comes to the Licensee's attention. The Licensor shall have the sole right and discretion to take any action relating to the Licensed Marks, and the Licensee agrees to cooperate fully, should the Licensor decide to take such action.

Section 7.02 If infringement or dilution proceedings relating to the Licensed Marks result in an award of damages or the payment of any sums to the Licensor, any such damages or payments shall belong solely to the Licensor.

Section 7.03 The Licensee will promptly notify the Licensor of any claim, complaint, allegation or threatened litigation (a "Claim") relating to the Licensed Marks, including, but not limited to, any Claim of infringement or dilution by any third party. The Licensor shall have sole authority to address, settle or litigate any Claim at its expense, provided, however, the Licensee shall fully cooperate with the Licensor in any Claim brought.

#### ARTICLE 8 Term and Termination

Section 8.01 The Agreement shall continue in force and effect for so long as the Program is in effect, but no later than December 31, 2099, unless it is sooner terminated as provided for herein.

Section 8.02 The Licensor may terminate the Agreement forthwith, upon written notice to the Licensee, if, in the Licensor's sole discretion and determination, there is a material breach of the Licensee's obligations under the Agreement.

Section 8.03 Either party may terminate the Agreement, without cause, by giving thirty (30) days written notice to the other party.

Section 8.04 Notwithstanding Section 8.03, for the further protection of the Licensed Marks, the license granted herein shall automatically and immediately terminate, without any notice by or any action required on the part of the Licensor, in the event that there is an Event of Default relating to the Licensee's Notes which results in such Notes becoming due and payable prior to their stated maturity.

#### ARTICLE 9 Effect of Termination

Section 9.01 Immediately upon termination of the Agreement, the Licensee shall cease and desist from any and all use of the Licensed Marks, amend its organizational documents, take all other actions necessary or desirable to change its name to a name that does not include any of the Licensed Marks, or any confusingly similar term, cease to distribute all materials bearing the Licensed Marks and destroy any remaining inventory of documents bearing the Licensed Marks.

Section 9.02 Immediately upon termination of the Agreement, the Licensee shall cease and desist from any and all use of the Licensed Marks, cease to distribute all materials that bear the Licensed Marks, and destroy any remaining inventory of documents that bear the Licensed Marks.

Section 9.03 Upon termination of the Agreement, the Licensee agrees to cooperate fully with the Licensor to amend or cancel any governmental recordations or approvals for the benefit of the Licensee pertaining to any marks or names which consist of or include any of the Licensed Marks.

Section 9.04 Upon termination of the Agreement, any and all rights in the Licensed Marks and the goodwill connected therewith shall remain the exclusive property of the Licensor.

#### ARTICLE 10 Miscellaneous Provisions

Section 10.01 Interpretation and Enforcement of Agreement. The Agreement shall be interpreted according to the laws of the State of Iowa, and the parties agree that exclusive jurisdiction over the enforcement of the Agreement shall be appropriate in the state or federal courts of the State of Iowa. The parties agree that any breaches of the Agreement shall cause irreparable injury to the nonbreaching party and that an injunction shall be an appropriate remedy.

Section 10.02 Amendment and Waiver. No amendment, modification or discharge of the Agreement, and no waiver under the Agreement, shall be valid or binding unless set forth in writing and duly executed by the party against whom enforcement of the amendment, modification, discharge or waiver is sought. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by either of the parties hereto of a breach of or a default under any of the provisions of the Agreement, nor the failure by either of the parties, on one or more occasions, to enforce any of the provisions of the Agreement or to exercise any right or privilege under the Agreement, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges under the Agreement. The rights and remedies provided in the Agreement are cumulative and are not exclusive of any rights or remedies that either party otherwise may have at law or in equity.

Section 10.03 Severability. In the event any provision of the Agreement shall be invalid or unenforceable, it shall be deemed to be separate and shall not affect any other provision of the Agreement.

Section 10.04 Assignment. The Agreement including the licenses granted in the Agreement is not assignable or transferable by agreement or by operation of law without the express written consent of the Licensor. Any such unauthorized assignment or transfer shall be null and void and of no legal effect. The Agreement shall be binding upon and inure to the benefit of the parties to the Agreement and their respective heirs, successors and permitted assigns.

Section 10.05 Notices. All notices, requests, demands and other communications required to be in writing under the Agreement shall be addressed as follows and notice shall be considered given five (5) days following dispatch by first class mail, postage prepaid or if transmitted by facsimile, when confirmed:

If to the Licensor:

Principal Financial Services, Inc.  
711 High Street  
Des Moines, Iowa 50392  
Telephone: (515) 247-5111  
Facsimile: (515) 248-3011  
Attn: General Counsel

With a copy to:

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392  
Telephone: (515) 248-9196  
Facsimile: (515) 235-9353  
Attn: Jim Fifield

If to the Licensee:

The Principal Life Income Fundings Trust specified in the Omnibus Instrument  
c/o U.S. Bank Trust National Association  
100 Wall Street, 16th Floor

New York, New York 10005  
Telephone: (212) 361-2458  
Facsimile: (212) 509-3384  
Attn: Adam Berman

Section 10.06 Trustee. The Agreement has been executed on behalf of the Licensee by the Trustee solely in its capacity as trustee of the Licensee, and not in its individual capacity. In no case shall the Trustee (or any entity acting as successor or additional trustee) be personally liable for or on account of any of the statements, representations, warranties, covenants or obligations of the Licensee under the Agreement, any right to assert any such liabilities against the Trustee (or any entity acting as successor or additional trustee) being hereby waived by the other party to the Agreement; provided, however, that such waiver shall not affect the liability of the Trustee (or any entity acting as successor or additional trustee) to any person under any other agreement to the extent expressly agreed to in its individual capacity thereunder.

Section 10.07 Counterparts. The Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Section 10.08 Equitable Relief. The Licensee acknowledges that the Licensor will suffer irreparable harm as a result of the material breach by the Licensee of any covenant or agreement to be performed or observed by the Licensee under the Agreement, and acknowledges that the Licensor shall be entitled to apply for and receive from any court or administrative body of competent jurisdiction a temporary restraining order, preliminary injunction and/or permanent injunction, without any necessity of proving damages, enjoining the Licensee from further breach of the Agreement or further infringement or impairment of the rights of the Licensor.

Section 10.09 Further Assurances. Each of the parties to the Agreement agrees to execute all such further instruments and documents and to take all such further action as the other party may reasonably require in order to effectuate the terms and purposes of the Agreement. The parties shall act in good faith in the performance of their obligations under the Agreement.



APPENDIX A  
LICENSED MARKS

PRINCIPAL(R)  
THE PRINCIPAL(R)  
PRINCIPAL FINANCIAL GROUP(R)  
PRINCIPAL FINANCIAL GROUP and Design(R)

STANDARD INDENTURE TERMS  
WITH RESPECT TO  
PRINCIPAL LIFE INCOME FUNDINGS TRUSTS  
SENIOR SECURED MEDIUM-TERM NOTES AND  
PRINCIPAL(R) LIFE CORENOTES(R)

DATED AS OF March 5, 2004

"CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license.

STANDARD INDENTURE TERMS  
WITH RESPECT TO  
PRINCIPAL LIFE INCOME FUNDINGS TRUSTS  
SENIOR SECURED MEDIUM-TERM NOTES AND  
PRINCIPAL(R) LIFE CORENOTES(R)

DATED AS OF March 5, 2004

"CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license.

TABLE OF CONTENTS

ARTICLE 1

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01.	Definitions.....	1
SECTION 1.02.	Compliance Certificates and Opinions.....	11
SECTION 1.03.	Form of Documents Delivered to Indenture Trustee.....	11
SECTION 1.04.	Acts of Holders.....	13
SECTION 1.05.	Notices.....	14
SECTION 1.06.	Notice to Holders; Waiver.....	16
SECTION 1.07.	Severability.....	16
SECTION 1.08.	Successors and Assigns.....	16
SECTION 1.09.	Benefits of Indenture.....	17
SECTION 1.10.	Language of Notices.....	17
SECTION 1.11.	Governing Law.....	17
SECTION 1.12.	Waiver of Jury Trial.....	17
SECTION 1.13.	Counterparts.....	18
SECTION 1.14.	Third Party Beneficiaries.....	18
SECTION 1.15.	Conflict with Trust Indenture Act.....	18

ARTICLE 2

THE NOTES

SECTION 2.01.	Forms Generally.....	18
SECTION 2.02.	No Limitation on Aggregate Principal Amount of Notes.....	21
SECTION 2.03.	Listing.....	21
SECTION 2.04.	Redemption and Repayment.....	21
SECTION 2.05.	Execution, Authentication and Delivery Generally.....	23
SECTION 2.06.	Registration.....	26
SECTION 2.07.	Transfer.....	26
SECTION 2.08.	Mutilated, Destroyed, Lost and Stolen Notes.....	27
SECTION 2.09.	Payment of Interest; Rights To Interest Preserved.....	27
SECTION 2.10.	Cancellation.....	28
SECTION 2.11.	Persons Deemed Owners.....	28
SECTION 2.12.	Tax Treatment; Tax Returns and Reports.....	29
SECTION 2.13.	No Association.....	29
SECTION 2.14.	Administrative Procedures.....	29

ARTICLE 3

COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 3.01.	Payment of Principal and any Premium, Interest and Additional Amounts.....	29
SECTION 3.02.	Collection Account.....	30
SECTION 3.03.	Agreements of the Paying Agent.....	30
SECTION 3.04.	Maintenance of Office or Agency.....	32
SECTION 3.05.	Duties of the Agents.....	33
SECTION 3.06.	Duties of the Transfer Agent.....	34
SECTION 3.07.	Duties of the Registrar.....	34

SECTION 3.08.	Unclaimed Monies.....	35
SECTION 3.09.	Protection of Collateral.....	36
SECTION 3.10.	Opinions as to Collateral; Annual Statement as to Compliance..	37
SECTION 3.11.	Performance of Obligations.....	39
SECTION 3.12.	Existence.....	39
SECTION 3.13.	Reports; Financial Information; Notices of Defaults.....	40
SECTION 3.14.	Payment of Taxes and Other Claims.....	41
SECTION 3.15.	Negative Covenants.....	41
SECTION 3.16.	Non-Petition.....	43
SECTION 3.17.	Title to the Collateral.....	44
SECTION 3.18.	Withholding and Payment of Additional Amounts.....	44
SECTION 3.19.	Additional Representations and Warranties.....	46
SECTION 3.20.	Ancillary Documents.....	47

ARTICLE 4

GRANTING OF SECURITY INTEREST AND ASSIGNMENT FOR COLLATERAL PURPOSES

SECTION 4.01.	Creation.....	47
SECTION 4.02.	Scope.....	48
SECTION 4.03.	Termination of Security Interest.....	49

ARTICLE 5

SATISFACTION AND DISCHARGE; SUBROGATION

SECTION 5.01.	Satisfaction and Discharge of Indenture.....	50
SECTION 5.02.	Application of Trust Money.....	50

ARTICLE 6

DEFAULTS AND REMEDIES

SECTION 6.01.	Events of Default.....	51
SECTION 6.02.	Acceleration of Maturity Date; Rescission and Annulment.....	53
SECTION 6.03.	Collection of Indebtedness and Suits for Enforcement.....	54
SECTION 6.04.	Indenture Trustee May File Proofs of Claim.....	54
SECTION 6.05.	Indenture Trustee May Enforce Claims Without Possession of Notes.....	55
SECTION 6.06.	Application of Money Collected.....	55
SECTION 6.07.	Limitation on Suits.....	56
SECTION 6.08.	Unconditional Rights of Holders to Receive Payments.....	57
SECTION 6.09.	Restoration of Rights and Remedies.....	57
SECTION 6.10.	Rights and Remedies Cumulative.....	57
SECTION 6.11.	Delay or Omission Not Waiver.....	57
SECTION 6.12.	Control by Holders.....	57
SECTION 6.13.	Waiver of Past Defaults.....	58
SECTION 6.14.	Undertaking for Costs.....	58
SECTION 6.15.	Waiver of Stay or Extension Laws.....	58

ARTICLE 7

THE INDENTURE TRUSTEE AND OTHER AGENTS

SECTION 7.01.	Duties of Indenture Trustee.....	59
---------------	----------------------------------	----

SECTION 7.02.	No Liability to Invest.....	60
SECTION 7.03.	Performance Upon Default.....	61
SECTION 7.04.	No Assumption by Paying Agent, Transfer Agent, Calculation Agent or Registrar.....	61
SECTION 7.05.	Notice of Default.....	61
SECTION 7.06.	Rights of Indenture Trustee.....	61
SECTION 7.07.	Not Responsible for Recitals or Issuance of Notes.....	63
SECTION 7.08.	Indenture Trustee May Hold Notes.....	63
SECTION 7.09.	Money Held in Trust.....	63
SECTION 7.10.	Compensation and Reimbursement.....	63
SECTION 7.11.	Eligibility.....	63
SECTION 7.12.	Resignation and Removal; Appointment of Successor.....	64
SECTION 7.13.	Acceptance of Appointment by Successor.....	65
SECTION 7.14.	Merger, Conversion, Consolidation or Succession to Business of Indenture Trustee.....	66
SECTION 7.15.	Co-trustees.....	66
SECTION 7.16.	Appointment and Duties of the Calculation Agent.....	67
SECTION 7.17.	Changes in Agents.....	68
SECTION 7.18.	Limitation of Trustee Liability.....	70

ARTICLE 8

SUPPLEMENTAL INDENTURES

SECTION 8.01.	Supplemental Indentures Without Consent of Holders.....	71
SECTION 8.02.	Supplemental Indenture With Consent of Holders.....	71
SECTION 8.03.	Execution of Supplemental Indentures.....	73
SECTION 8.04.	Effect of Supplemental Indenture.....	73
SECTION 8.05.	Reference in Notes to Supplemental Indentures.....	73
SECTION 8.06.	Conformity with Trust Indenture Act.....	73

ARTICLE 9

NON-RECOURSE PROVISIONS

SECTION 9.01.	Nonrecourse Enforcement.....	74
---------------	------------------------------	----

ARTICLE 10

MEETINGS OF HOLDERS OF NOTES

SECTION 10.01.	Purposes for Which Meetings May be Called.....	74
SECTION 10.02.	Call, Notice and Place of Meetings.....	74
SECTION 10.03.	Persons Entitled to Vote at Meetings.....	75
SECTION 10.04.	Quorum; Action.....	75
SECTION 10.05.	Determination of Voting Rights; Conduct and Adjournment of Meetings.....	76
SECTION 10.06.	Counting Votes and Recording Action of Meetings.....	77

ARTICLE 11

NOTES IN FOREIGN CURRENCIES

SECTION 11.01.	Notes in Foreign Currencies.....	77
----------------	----------------------------------	----

Exhibit A-1	Form of Retail Global Note
Exhibit A-2	Form of Institutional Global Note
Exhibit A-3	Form of Institutional Definitive Note

Reconciliation and tie between  
Trust Indenture Act of 1939 (the "Trust Indenture Act")  
and Indenture

Trust Indenture Act Section	Indenture Section
ss. 310(a).....	7.11
(b).....	7.11
ss. 311(a).....	7.08
ss. 312(a) .....	3.13
(b).....	3.13
(c).....	3.13
ss. 313(a).....	3.13
(b).....	3.13
(c).....	3.13
(d).....	3.13
ss. 314(a) .....	3.10
(b).....	3.10
(c) .....	1.02, 3.10
(d) .....	3.10
(e).....	1.03, 3.10
ss. 315(c).....	7.01
ss. 316(a)(1) (A) .....	6.02, 6.12
(a)(1)(B).....	6.13
(b).....	6.08
(c).....	1.04
ss. 317(a)(1).....	6.03
(a)(2) .....	6.04
(b).....	3.03
ss. 318(a) .....	1.15
(c).....	1.15

Note: This reconciliation and tie shall not, for any purpose, be deemed to be part of the Indenture.

Attention should also be directed to Section 318(c) of the Trust Indenture Act, which provides that certain provisions of Sections 310 to and including 317 are a part of and govern every qualified indenture, whether or not physically contained in the Indenture.



STANDARD INDENTURE TERMS

This document constitutes the Standard Indenture Terms, dated as of March 5, 2004, which are incorporated by reference in the Indenture (specified in Section C of the Omnibus Instrument, as defined below), by and among the Trust named in the Omnibus Instrument and the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent for such Trust, in connection with the Program (all as defined in the Indenture).

These Standard Indenture Terms shall be of no force and effect unless and until incorporated by reference into, and then only to the extent not modified by, such Indenture.

The following terms and provisions shall govern the Notes subject to contrary terms and provisions expressly adopted in such Indenture, any supplemental indenture or the Notes, which contrary terms shall be controlling.

ARTICLE 1  
DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. Definitions. For all purposes of the Indenture, of all indentures supplemental to the Indenture and of all Notes issued under the Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in the Indenture have the meanings assigned to them in this Article 1, and include the plural as well as the singular;

(b) all accounting terms not otherwise defined in the Indenture have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise expressly provided in the Indenture, the term "generally accepted accounting principles" with respect to any computation required or permitted under the Indenture shall mean such accounting principles as are generally accepted at the date of such computation in the United States;

(c) the word "including" shall be construed to be followed by the words "without limitation";

(d) Article and Section headings are for the convenience of the reader and shall not be considered in interpreting the Indenture or the intent of the parties to the Indenture;

(e) the words "hereby," "herein," "hereof" and "hereunder" and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section, Exhibit or other subdivision; and

(f) references in the Indenture to Articles, Sections, Exhibits and Schedules shall, refer respectively to Articles, Sections, Exhibits and Schedules of these Standard Indenture Terms, unless otherwise expressly provided.

"ACT", with respect to any Holder, has the meaning set forth in Section 1.04.

"ADDITIONAL AMOUNTS" means additional amounts that are required by the Indenture or the Notes to be paid by the Trust to Holders pursuant to Section 3.18 or additional amounts that are required pursuant to the Funding Agreement, under circumstances specified therein, to be paid by Principal Life to the Funding Agreement Holder, to compensate for any withholding or deduction for or on the account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of such Notes or Funding Agreement, as applicable, by or on behalf of any governmental authority in the United States having the power to tax, so that the net amount received by the Holders or the Funding Agreement Holder, will equal the amount that would have been received under such Notes or Funding Agreement, as applicable, had no such deduction or withholding been required.

"AFFILIATE" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, that Person and, in the case of an individual, any spouse or other member of that individual's immediate family. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"AGENT" means any of the Registrar, Transfer Agent, Paying Agent or Calculation Agent.

"AUTHORIZED NEWSPAPER" means a newspaper, in an official language of the place of publication or in the English language, customarily published on each day that is a business day in the place of publication, whether or not published on days that are not business days in the place of publication, and of general circulation in each place in connection with which the term is used or in the financial community of each such place. Where successive publications are required to be made in Authorized Newspapers, the successive publications may be made in the same or in different newspapers in the same city meeting the foregoing requirements and, in each case, on any day that is a business day in the place of publication.

"AUTHORIZED SIGNATORIES" mean Responsible Officers authorized to execute documents on behalf of the Trust.

"BANKING DAY" means a day (other than a Saturday or Sunday) on which commercial banks are generally open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Paying Agent or, as the case may be, the Registrar is located.

"BUSINESS DAY" means (i) for any Note, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York, (ii) for LIBOR Notes only, any day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London, England, (iii) for Notes that have a Specified Currency other than U.S. Dollars only, and other than Notes denominated in euros, any day that is not a day on which commercial banks are authorized or required by law, regulation or executive order to close in the

Principal Financial Center of the country issuing the Specified Currency, and (iv) for Notes that have euros as the Specified Currency only a day on which the TARGET System is open.

"CALCULATION AGENT" means the institution appointed as calculation agent for the Notes and named as such in the relevant Pricing Supplement or its successors or assigns. For such purpose, the Paying Agent accepts its appointment as the initial Calculation Agent pursuant to Section 7.16.

"CLEARING SYSTEM" means DTC and any other clearing system specified in the relevant Pricing Supplement.

"CODE" means the Internal Revenue Code of 1986, as amended, including any successor or amendatory statutes and any applicable rules, regulations, notices or orders promulgated thereunder.

"COLLATERAL" means the right, title, benefits, remedies and interests of the Trust in, to and under (i) the Funding Agreement, (ii) all Proceeds of the Funding Agreement and the Guarantee and all amounts and instruments on deposit from time to time in the Collection Account, (iii) the Guarantee, (iv) all books and records pertaining to the Funding Agreement and the Guarantee, and (v) all rights of the Trust pertaining to the foregoing.

"COLLECTION ACCOUNT" means a non-interest bearing account with the Indenture Trustee in the name of the Trust or such other account with a depository institution that is rated at least AA- or Aa3 by a nationally recognized statistical rating organization as may be designated by the Trustee, which account shall be segregated from other accounts held by the Indenture Trustee or such other depository institution.

"COMMISSION" means the Securities and Exchange Commission or any successor body performing such duties of the Commission.

"CONTINGENT OBLIGATION" means, as applied to any Person, without duplication, any direct or indirect liability, contingent or otherwise, of that Person (i) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation of another if the primary purpose or intent thereof by the Person incurring the Contingent Obligation is to provide assurance to the obligee of such obligation of another that such obligation of another will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected (in whole or in part) against loss in respect thereof, (ii) under any letter of credit issued for the account of or for which that Person is otherwise liable for reimbursement thereof, (iii) under agreements providing for the hedging or limitation of interest rate or currency risk, (iv) under any performance bond or other surety arrangement, (v) under any direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, or (vi) for the obligations of another through any agreement (contingent or otherwise).

"CORPORATE TRUST OFFICE" means the office of the Indenture Trustee at which the corporate trust business of the Indenture Trustee shall, at any particular time, be principally administered, which office at the date of the Indenture is located as indicated in Section 1.05.

"DEFAULT" means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

"DEFAULTED INTEREST" has the meaning set forth in Section 2.09.

"DEFINITIVE NOTE" means a Note issued in certificated and registered form.

"DEPOSITARY" means the Person designated as Depositary by the Trust pursuant to the Indenture, which Person, if required by any applicable law, regulation or exchange requirement, must be a clearing agency registered under the Securities Exchange Act and, if so provided with respect to any Note, any successor to such Person. Initially, the "Depositary" shall be DTC.

"DISTRIBUTION AGREEMENT" means that certain Distribution Agreement, dated March 5, 2004, by and among Principal Life, PFG and the agents named therein and acknowledged and agreed to by the Trust, relating to the issuance and sale of the Notes under the Program, as the same may be amended, modified or supplemented from time to time.

"DOLLARS", "\$", "U.S. \$" and "U.S. DOLLARS" mean such coin or currency of the United States as at the time shall be legal tender for the payment of public or private debts.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"EUROPEAN UNION DIRECTIVE" means any law, regulation, directive or any interpretation by the European Union or a member nation of the European Union which requires the withholding or deduction of any amounts payable under the Notes, the Indenture or the Funding Agreement.

"EVENT OF DEFAULT" has the meaning set forth in Section 6.01.

"EXPENSE AND INDEMNITY AGREEMENT" means, as applicable, (i) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Trustee, on behalf of itself and each trust organized under the Program, including the Trust, (ii) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Indenture Trustee, (iii) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and the Trust Beneficial Owner and (iv) that certain Expense and Indemnity Agreement, dated March 5, 2004, by and between Principal Life and Bankers Trust Company, N.A., as each may be amended, modified or supplemented from time to time.

"FUNDING AGREEMENT" means that certain funding agreement designated in the Indenture, entered into by and between Principal Life and the Trust, as it may be modified, restated, replaced, supplemented or otherwise amended from time to time in accordance with the terms thereof.

"FUNDING AGREEMENT HOLDER" means, with respect to the Notes, the "Agreement Holder" as specified in the Funding Agreement.

"GLOBAL NOTE" means a Note issued in book-entry and registered form.

"GUARANTEE" means that certain guarantee issued by PFG to the Trust designated in the Indenture, which fully and unconditionally guarantees Principal Life's payment obligations under the Funding Agreement, as it may be modified, restated, replaced, supplemented or otherwise amended from time to time in accordance with the terms thereof.

"HOLDER" means the Person in whose name a Note or Notes is registered in the Register.

"INDEBTEDNESS" means, as applied to any Person, (i) all indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which such Person is liable, contingent or otherwise, or in respect of which such Person otherwise assures a creditor against loss (excluding trade accounts payable and accrued expenses arising in the ordinary course of business as determined in good faith by such Person), (ii) that portion of obligations with respect to capital leases which is properly classified as a liability on a balance sheet in conformity with generally accepted accounting principles, (iii) obligations evidenced by bonds, notes, debentures or similar instruments of such Person, and notes payable by such Person and drafts accepted by such Person representing extensions of credit whether or not representing obligations for borrowed money, (iv) the face amount of all drafts drawn thereunder, and (v) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person.

"INDENTURE" means that certain Indenture, contained in, and dated as of the date specified in, the Omnibus Instrument, by and among the Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent and the Trust, as may be amended, modified or supplemented from time to time, which incorporates by reference these Standard Indenture Terms, and shall include the terms of the Notes established as contemplated hereunder and thereunder.

"INDENTURE TRUSTEE" means, unless otherwise specified in the Indenture, Citibank, N.A. and, subject to the provisions of Article 7, shall also include its successors and assigns as Indenture Trustee under the Indenture.

"INTEREST PAYMENT DATE" means each date on which interest is paid to the Holders of the Notes as specified in the Indenture.

"INVESTMENT COMPANY ACT" means the Investment Company Act of 1940, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"LIBOR CURRENCY" means the currency specified in the Pricing Supplement as to which LIBOR shall be calculated or, if no currency is specified in the Pricing Supplement, United States dollars.

"LIBOR NOTES" means Notes that bear interest based on LIBOR (as defined in the Notes).

"LICENSE AGREEMENT" means that certain License Agreement by and between the Trustee, on behalf of the Trust, and Principal Financial Services, Inc., contained in, and dated as of the date specified in, the Omnibus Instrument, as the same may be amended, modified or supplemented from time to time.

"LIEN" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including without limitation any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction).

"MATURITY DATE" means the date on which the principal of the Notes becomes due and payable as provided therein or in the Indenture, whether at the Stated Maturity Date thereof, by declaration of acceleration, notice of redemption of the Trust, notice of the Holder's option to elect repayment or otherwise.

"NONRECOURSE PARTIES" has the meaning set forth in Section 9.01.

"NOTE" means any senior secured note of the Trust designated in the Indenture and authenticated and delivered under the Indenture, which is in registered form and may be represented by a Global Note or a Definitive Note, and which shall be substantially in the forms attached as Exhibit A-1, Exhibit A-2 and Exhibit A-3 to the Indenture and "NOTES" means the senior secured notes of the Trust represented by such Note.

"NOTICE OF DEFAULT" has the meaning set forth in Section 6.01.

"OFFICE OR AGENCY" means an office or agency of the Trust, the Indenture Trustee, the Paying Agent or the Registrar, as the case may be, maintained or designated as the Place of Payment for the Notes pursuant to Section 3.04 or any other office or agency of the Trust, Indenture Trustee, Paying Agent or Registrar, as the case may be, maintained or designated for such Notes pursuant to Section 3.04.

"OMNIBUS INSTRUMENT" means the omnibus instrument pursuant to which certain Program Documents are executed.

"OPINION OF COUNSEL" means a written opinion addressed to the Indenture Trustee (among other addressees) by legal counsel, who may be internal legal counsel to Principal Life, who may, except as otherwise expressly provided in the Indenture, be counsel for the Trust or Principal Life or other counsel and who shall be reasonably satisfactory to the Indenture Trustee.

"ORIGINAL ISSUE DATE", with respect to the Notes, means the original issue date of the Notes, as specified in the Pricing Supplement.

"OUTSTANDING" means as of any date of determination, all of the Notes theretofore authenticated and delivered under the Indenture or in one or more indentures supplemental to the Indenture, except:

(i) Notes theretofore cancelled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation;

(ii) Notes or portions thereof for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of the Notes, provided that, if the Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Indenture Trustee has been made;

(iii) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course;

(iv) Notes alleged to have been destroyed, lost, stolen or mutilated and surrendered to the Indenture Trustee for which either replacement Notes have been issued or payment has been made as provided for in Section 2.08 unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course; and

(v) Notes represented by Global Notes to the extent that they shall have been duly exchanged for Definitive Notes pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course;

provided further, however, that in determining whether the Holders of the requisite percentage of the principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned by the Trust or any Affiliate of the Trust shall be disregarded and deemed not to be Outstanding, except that in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that the Indenture Trustee knows to be so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee that the pledgee is entitled so to act with respect to such Notes and that the pledgee is not the Trust or any Affiliate of the Trust.

"PAYING AGENT" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as paying agent under the Indenture or its successors or assigns.

"PERSON" means any natural person, corporation, limited partnership, general partnership, joint stock company, joint venture, association, company, limited liability company, trust (including any beneficiary thereof), bank, trust company, land trust, business trust or other

organization, whether or not a legal entity, and governments and agencies and political subdivisions thereof.

"PFG" means Principal Financial Group, Inc., a Delaware corporation and the indirect parent of Principal Life, or any successor thereto.

"PLACE OF PAYMENT" means the place where the principal of, premium, if any, and interest on the Notes are payable which, unless otherwise specified in the Indenture, shall be the address specified in Section 1.05 for the Indenture Trustee.

"PRICING SUPPLEMENT" means the pricing supplement attached to the Omnibus Instrument as Exhibit D as prepared by the Trust in connection with the issuance and sale by the Trust of the Notes and agreed to by Principal Life, the Trust and the Relevant Agents appointed under the Distribution Agreement, as such Pricing Supplement may be amended, modified, supplemented or replaced from time to time.

"PRINCIPAL FINANCIAL CENTER" means, as applicable, the capital city of the country issuing the Specified Currency or the capital city of the country to which the LIBOR Currency relates; provided, however, that with respect to United States Dollars, Australian dollars, Canadian dollars, the euro, South African rand and Swiss francs, the "Principal Financial Center" shall be The City of New York, Sydney, Toronto, London (solely in the case of the LIBOR Currency), Johannesburg and Zurich, respectively.

"PRINCIPAL LIFE" means Principal Life Insurance Company, an Iowa insurance company, or any successor thereto.

"PROCEEDS" means all of the proceeds of, and all other profits, products, rents, principal payments, interest payments or other receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition or maturity of, or other realization upon, the Funding Agreement or the Guarantee, including without limitation all claims of the Trust against third parties for loss of, damage to or destruction of, or for proceeds payable under, the Funding Agreement or the Guarantee, in each case whether now existing or hereafter arising.

"PROGRAM" means, collectively, the Senior Secured Medium-Term Notes Program and the Principal(R) Life CoreNotes(R) Program, in each case, of the Principal Life Income Fundings Trusts.

"PROGRAM DOCUMENTS" means the Indenture, the Notes, the Trust Agreement, the Funding Agreement, the Guarantee, the Distribution Agreement, the License Agreement and each Expense and Indemnity Agreement and any other documents or instruments entered into by, with respect to, or on behalf of, the Trust.

"RATING AGENCY" means any rating agency that has rated the Program or the Notes.

"REDEMPTION PRICE" means the price at which the Notes are to be redeemed pursuant to Section 2.04, as set forth in the applicable Pricing Supplement or a supplemental indenture.

"REGISTER" has the meaning set forth in Section 2.06.



"REGISTRAR" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as registrar under the Indenture, or its successors or assigns.

"REGISTRATION STATEMENT" means (a) a registration statement on Form S-3 or other appropriate form, including the prospectus, prospectus supplements and the exhibits included therein and including any documents or filings incorporated by reference therein, any pre-effective or post-effective amendments thereto and any registration statements filed subsequent thereto under rules promulgated under the Securities Act, relating to the registration under the Securities Act of the Notes, the Funding Agreement and the Guarantee, (b) any preliminary prospectus or prospectus supplements thereto relating to the Notes whether or not required to be filed pursuant to the Securities Act and any documents or filings incorporated therein by reference, and (c) a registration statement and such other documents, forms or filings as may be required by the Securities Act or the Trust Indenture Act, or other securities laws in each case relating to the Notes.

"REGULAR RECORD DATE" for the interest payable on any Interest Payment Date means the date specified for that purpose in the Notes or the Indenture.

"RELEVANT AGENTS" means the agent or agents (in a firm commitment offering of Notes or in a best efforts offering of Notes) appointed pursuant to the Distribution Agreement.

"RESPONSIBLE OFFICER" means, with respect to the Indenture Trustee or the Trustee, any vice president, assistant vice president, any assistant secretary, any assistant treasurer, any trust officer or assistant trust officer, or any other officer of the Indenture Trustee or the Trustee, as the case may be, customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject, and also, with respect to the Trustee, having direct responsibility for the administration of the Trust, or with respect to the Indenture Trustee, having direct responsibility for the administration of the Indenture.

"SECURED OBLIGATIONS" means the obligations of the Trust secured under the Notes and the Indenture, including (i) all principal of, premium, if any, and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Trust, whether or not allowed or allowable as a claim in any such proceeding) on such Notes or pursuant to the Indenture, (ii) all other amounts payable by the Trust under the Indenture or under such Notes including all Additional Amounts (if applicable) and all costs and expenses (including without limitation attorneys' fees) incurred by the Indenture Trustee (to the extent not paid pursuant to the applicable Expense and Indemnity Agreement) and (iii) any renewals or extensions of the foregoing.

"SECURITIES ACT" means the Securities Act of 1933, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"SECURITIES EXCHANGE ACT" means the Securities Exchange Act of 1934, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"SPECIAL RECORD DATE" means a date fixed by the Indenture Trustee pursuant to Section 2.09 for the payment of any Defaulted Interest on any Note.

"SPECIFIED CURRENCY" means the currency in which the Notes are denominated (or, if such currency is no longer legal tender for the payment of public and private debts in the country issuing such currency or, in the case of the euro, in the member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union, such currency which is then such legal tender).

"STANDARD INDENTURE TERMS" means these Standard Indenture Terms, dated as of March 5, 2004.

"STATED MATURITY DATE" means the date specified in the Notes, as the fixed date on which the principal of such Notes is due and payable, which date will be a day between nine months and thirty years from the date of original issuance of the Notes and be on the last scheduled Interest Payment Date.

"STERLING" means such coin or currency of the United Kingdom as at the time shall be legal tender for the payment of public or private debts.

"TARGET SYSTEM" means the Trans-European Automated Real-Time Gross Settlement Express Transfer System.

"TRANSFER AGENT" means, unless otherwise specified in the Indenture or a supplemental indenture, the Indenture Trustee, in its capacity as transfer agent under the Indenture or its successors or assigns.

"TREASURY REGULATIONS" means the regulations promulgated by the United States Treasury Department pursuant to the Code.

"TRUST" means the Principal Life Income Fundings Trust named in the Omnibus Instrument, which shall be a trust, formed under the laws of the jurisdiction specified in the Trust Agreement, together with its permitted successors and assigns; provided, however, unless the context requires otherwise, all references in the Indenture to the "Trust" shall also include the Trustee, on behalf of the Trust.

"TRUST AGREEMENT" means that certain Trust Agreement, contained in, and dated as of the date specified in, the Omnibus Instrument, by and between the Trustee and the Trust Beneficial Owner, declaring and establishing the Trust, as may be amended, modified or supplemented from time to time.

"TRUST BENEFICIAL INTEREST" has the meaning set forth in the Trust Agreement.

"TRUST BENEFICIAL OWNER" means the beneficial owner of the Trust Beneficial Interest.

"TRUST CERTIFICATE" means a certificate signed by one or more Responsible Officers of the Trustee on behalf of the Trust and delivered to the Indenture Trustee.

"TRUST INDENTURE ACT" means the Trust Indenture Act of 1939, as it may be amended or supplemented from time to time, and any successor statute thereto, and the rules, regulations and published interpretations of the Commission promulgated thereunder from time to time.

"TRUST ORDER" or "TRUST REQUEST" means a written statement, request or order of the Trust signed in its name by one or more Responsible Officers of the Trustee and delivered to the Indenture Trustee.

"TRUSTEE" means, unless otherwise specified in the Trust Agreement, U.S. Bank Trust National Association, not in its individual capacity, but solely as the Trustee under the Trust Agreement, and shall also include its permitted successors and assigns under the Trust Agreement.

"UCC" means the Uniform Commercial Code, as from time to time in effect in the State of New York; provided that, with respect to the perfection, effect of perfection or non-perfection, or priority of any security interest in the Collateral, "UCC" shall mean the Uniform Commercial Code, as from time to time in effect in the applicable jurisdiction whose law governs such perfection, non-perfection or priority.

"UNITED STATES" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

SECTION 1.02. Compliance Certificates and Opinions. Upon any application or request by the Trust to the Indenture Trustee to take any action under any provision of the Indenture, the Trust shall furnish to the Indenture Trustee a Trust Certificate stating that all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of the Indenture, no additional certificate or opinion need be furnished.

SECTION 1.03. Form of Documents Delivered to Indenture Trustee.

(a) In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

(b) Any certificate or opinion of the Trust may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless the Trustee knows that the certificate or opinion or representations with respect to the matters upon

which its certificate or opinion is based are erroneous. Any such certificate or opinion or any Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, the Trustee stating that the information with respect to such factual matters is in the possession of the Trustee, unless such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous. Any Opinion of Counsel may be based on the written opinion of other counsel, in which event such Opinion of Counsel shall be accompanied by a copy of such other counsel's opinion and shall include a statement to the effect that such counsel believes that such counsel and the Indenture Trustee may reasonably rely upon the opinion of such other counsel. Any certificate or opinion of the Trust or of counsel may be based, insofar as it relates to accounting matters, upon a certificate or opinion of or representations by an accountant or firm of accountants in the employ of Principal Life, PFG or the Trust, unless the Trustee knows that the certificate or opinion or representations with respect to the accounting matters upon which its certificate or opinion is based are erroneous.

(c) Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under the Indenture, they may, but need not, be consolidated and form one instrument.

(d) Wherever in the Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Trust shall deliver any document as a condition of the granting of such application, or as evidence of compliance with any term of the Indenture, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Trust to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to limit the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Section 7.01.

(e) Every certificate or opinion with respect to compliance with a condition or covenant provided for in the Indenture (including one furnished pursuant to specific requirements of the Indenture relating to a particular application or request) shall substantially include:

(i) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions in the Indenture relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of each such individual, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

#### SECTION 1.04. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by any Holder may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holder in person or by one or more agents duly appointed in writing. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be given or taken by Holders may, alternatively, be embodied in and evidenced by the record of Holders of Notes voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders of Notes duly called and held in accordance with the provisions of Article 10, or a combination of such instruments and any such record. Except as otherwise expressly provided in the Indenture, such action shall become effective when such instrument or instruments or record or both are delivered to the Indenture Trustee. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are sometimes referred to in the Indenture as the "ACT" of the Holders signing such instrument or instruments or so voting at any meeting. Proof of execution of any such instrument or of writing appointing any such agent, or of the holding by any Person of a Note, shall be sufficient for any purpose of the Indenture and (subject to Section 7.01) conclusive in favor of the Indenture Trustee, and the Trust, if made in the manner provided in this Section 1.04. The record of any meeting of Holders of Notes shall be proved in the manner provided in Section 10.06. Without limiting the generality of this Section 1.04, unless otherwise provided in or pursuant to the Indenture, a Clearing System that is or whose nominee is a Holder of a Global Note may allow its account holders who have beneficial interests in such Global Note credited to accounts with such Clearing System to direct such Clearing System in taking such action through such Clearing System's standing instructions and customary practices. The Clearing System shall report only one result of its solicitation of proxies to the Indenture Trustee.

(b) Subject to Section 7.01, the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Whenever such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may be proved in any other manner that the Indenture Trustee deems sufficient.

(c) The ownership, principal amount and serial numbers of Notes held by any Person, and the date of the commencement and the date of the termination of holding the same, shall be proved by the Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in

lieu thereof in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Trust in reliance thereon, whether or not notation of such action is made upon such Note.

(e) Except as provided in subsection (f) below, if the Trust shall solicit from the Holders of Notes any Act referred to in Section 1.04(a), the Trust may, at its option, fix in advance a record date for the determination of Holders entitled to vote or consent in connection with any such Act, but the Trust shall have no obligation to do so. If such record date is fixed, such Act may be given after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Notes have authorized or agreed or consented to such Act, and for that purpose the Outstanding Notes shall be computed as of such record date; provided, that no such Act by Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of the Indenture not later than six months after the record date. Nothing in this subsection (e) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Notes on the date such action is taken. Promptly after any record date is set pursuant to this subsection (e), the Trust shall cause notice of such record date and the proposed action by Holders to be given to the Indenture Trustee in writing and to each Holder of the Notes in the manner set forth in Section 1.06.

(f) The Indenture Trustee may set any day as a record date for the purpose of determining the Holders entitled to join in the giving or making of (i) any notice delivered pursuant to Section 6.01(d), (ii) any declaration of acceleration referred to in Section 6.02, (iii) any request to institute proceedings referred to in Section 6.07(b) or (iv) any direction referred to in Section 6.12. If such a record date is fixed pursuant to this subsection (f), the relevant action may be taken or given after such record date, but only the Holders of record at the close of business on such record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of Outstanding Notes have authorized or agreed or consented to such action, and for that purpose the Outstanding Notes shall be computed as of such record date; provided, that no such action by Holders on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of the Indenture not later than six months after the record date. Nothing in this subsection (f) shall be construed to prevent the Indenture Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this subsection (f) (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this subsection (f) shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Notes on the date such action is taken. Promptly after any record date is set pursuant to this subsection (f), the Indenture Trustee shall cause notice of such record date and the proposed action by Holders to be given to the Trust in writing and to each Holder of the Notes in the manner set forth in Section 1.06.

SECTION 1.05. Notices. Any request, demand, authorization, direction, notice, consent, waiver or other action required or permitted by the Indenture to be made upon, given or furnished to, or filed with, the Indenture Trustee, the Registrar, the Transfer Agent, the Paying Agent, the Calculation Agent, the Trust and the Rating Agencies shall be sufficient for every purpose under the Indenture (unless otherwise expressly provided in the Indenture) if in writing and sent by fax, telex, or mailed, first-class mail or overnight courier, in each case postage

prepaid, at the address specified in this Section 1.05 or at any other address previously furnished in writing by one party to the other.

Such notices shall be addressed

if to the Indenture Trustee, to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Facsimile: (212) 657-3862  
Attention: Nancy Forte

if to the Registrar, Transfer Agent, Paying Agent and Calculation Agent, to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, NY 10005  
Facsimile: (212) 657-3862  
Attention: Nancy Forte

if to the Trust, to:

Principal Life Income Fundings Trust (followed by the number of the Trust designated in the Omnibus Instrument)  
c/o U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, NY 10005  
Telephone: (212) 361-2458  
Facsimile: (212) 509-3384  
Attention: Adam Berman

if to the Rating Agencies, to:

Standard & Poor's Rating Services  
55 Water Street  
33rd Floor  
New York, New York 10041  
Facsimile: (212)438-5215  
Attention: Capital Markets

Moody's Investors Service, Inc.  
Life Insurance Group  
99 Church Street  
New York, New York 10007  
Facsimile: (212) 553-4805  
Attention: [Principal Life Income Fundings Trusts]

SECTION 1.06. Notice to Holders; Waiver.

(a) Except as otherwise expressly provided in or pursuant to the Indenture, notices to Holders required under the Notes shall be sufficiently given upon the mailing by overnight courier or first-class mail (or equivalent), or (if posted to an overseas address) by airmail, postage prepaid, of such notices to each Holder of the Notes at their registered addresses as recorded in the Register.

(b) Where the Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. In any case, neither the failure to give such notice, nor any defect in any notice to any particular Holder shall affect the sufficiency of such notice with respect to other Holders, and any notice which is mailed in the manner provided in the Indenture shall be conclusively presumed to have been duly given.

(c) In the case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Indenture Trustee shall constitute a sufficient notification for every purpose under the Indenture.

SECTION 1.07. Severability. In case any provision in or obligation under the Indenture or the Notes shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby to the fullest extent permitted under applicable law.

SECTION 1.08. Successors and Assigns. All covenants, stipulations, promises and agreements in the Indenture by the Trust shall bind its successors and assigns, whether so expressed or not.



SECTION 1.09. Benefits of Indenture. Nothing in the Indenture or in any Note, expressed or implied, shall give to any Person other than the parties under the Indenture and their successors and the Holders, any legal or equitable right, remedy or claim under the Indenture.

SECTION 1.10. Language of Notices. Any request, demand, authorization, direction, notice, consent, election or waiver required or permitted under the Indenture shall be in the English language, except that, if the Trust so elects, any published notice may be in an official language of the country of publication.

SECTION 1.11. Governing Law.

(a) The Indenture and the Notes (unless otherwise specified in the Pricing Supplement) shall be governed by, and construed in accordance with, the laws of the State of New York without regard to conflict of law principles, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the Trust's ownership of the Funding Agreement and Guarantee, the perfection of the Indenture Trustee's security interest therein, or remedies under the Indenture in respect thereof may be governed by laws of a jurisdiction other than the State of New York.

(b) ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST THE TRUST, THE ASSETS OF THE TRUST, THE INDENTURE TRUSTEE, REGISTRAR, TRANSFER AGENT OR PAYING AGENT OR ANY OTHER AGENT, ARISING OUT OF OR RELATING TO THE INDENTURE, ANY NOTE OR ANY PORTION OF THE COLLATERAL MAY BE BROUGHT IN A UNITED STATES FEDERAL COURT OF COMPETENT JURISDICTION LOCATED IN NEW YORK CITY, THE BOROUGH OF MANHATTAN, AND BY EXECUTION AND DELIVERY OF THE INDENTURE EACH OF THE TRUST, THE INDENTURE TRUSTEE, THE REGISTRAR, THE TRANSFER AGENT, THE PAYING AGENT AND ANY OTHER AGENT (IN SUCH CAPACITIES) ACCEPT (AND WITH RESPECT TO THE TRUST, IN CONNECTION WITH ITS PROPERTY ACCEPTS), GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURT AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS (EXCEPT TO THE EXTENT A UNITED STATES FEDERAL COURT RAISES SUCH ISSUE ON ITS OWN MOTION) AND IRREVOCABLY AGREE TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THE INDENTURE, ANY NOTE OR ANY PORTION OF THE COLLATERAL.

SECTION 1.12. Waiver of Jury Trial. EACH OF THE PARTIES TO THE INDENTURE HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THE INDENTURE, THE NOTES OR ANY DEALINGS AMONG THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION. The scope of this waiver is intended to encompass any and all disputes that may be filed in any court and that relate to the subject matter of this transaction including without limitation contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Each party under the Indenture acknowledges that this waiver is a material inducement to enter into a business relationship, that such party has already relied on the waiver in entering into the Indenture, and that such party will continue to rely on the waiver in its related future dealings. Each party under the Indenture

further warrants and represents that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THE INDENTURE OR ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE INDENTURE. In the event of litigation, the Indenture may be filed as a written consent to a trial by the court.

SECTION 1.13. Counterparts. The Indenture and any amendments, waivers, consents or supplements to the Indenture may be executed in any number of counterparts, and by different parties to the Indenture in separate counterparts, and each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. The Indenture shall become effective upon the execution of a counterpart of the Indenture by each of the parties to the Indenture.

SECTION 1.14. Third Party Beneficiaries. The Indenture will inure to the benefit of and be binding upon the parties to the Indenture, and the Trustee and their respective successors and permitted assigns.

SECTION 1.15. Conflict with Trust Indenture Act. If any provision of the Indenture limits, qualifies or conflicts with any duties imposed by any of Sections 310 to 317, inclusive, of the Trust Indenture Act through operation of Section 318(c) thereof, such imposed duties shall control.

ARTICLE 2  
THE NOTES

SECTION 2.01. Forms Generally.

(a) The Notes constitute direct, unconditional, unsubordinated and secured non-recourse obligations of the Trust and rank equally among themselves. The Notes shall be in substantially the form set forth in Exhibit A-1, Exhibit A-2 and Exhibit A-3 attached to the Indenture, as applicable, in each case with such appropriate insertions, omissions, substitutions and other variations as are required by the Indenture or as may in the Trust's judgment be necessary, appropriate or convenient to permit such Notes to be issued and sold, or to comply, or facilitate compliance, with applicable laws, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange on which such Notes may be listed, or as may, consistently with the Indenture, be determined by the Trustee (based conclusively on the advice of counsel) as evidenced by its execution thereof. Any portion of the text of any Note may be set forth on the reverse thereof with an appropriate reference on the face of the Note.

(b) The terms and provisions contained in the Notes shall constitute, and are hereby expressly made a part of the Indenture, and, to the extent applicable, the Indenture Trustee, by its execution and delivery of the Indenture, and the Trust by its execution and delivery of the Indenture, expressly agree to such terms and provisions and to be bound thereby.

(c) Except as described in this Section 2.01(c), no Global Note evidencing any of the Notes and deposited with or on behalf of any Clearing System shall be exchangeable for Definitive Notes. Subject to the foregoing sentence, if (i) such Clearing System notifies Principal Life that it is unwilling or unable to continue as Depository or Principal Life becomes aware that the Clearing System has ceased to be a clearing agency registered under the Securities Exchange Act and in any such case Principal Life fails to appoint a successor depository within sixty (60) calendar days after receiving the notice from such Clearing System or becoming aware that such Clearing System is no longer registered under the Exchange Act, (ii) an Event of Default shall have occurred and is continuing with respect to the Notes or (iii) the Trust shall have decided in its sole discretion that the Notes should no longer be evidenced solely by one or more Global Notes, then, pursuant to written instructions by Principal Life to the Indenture Trustee (in the case of clause (i)), or upon written request of the Holder (or account holder of such Clearing System with an interest in the Notes) (in the case of clause (ii)), or pursuant to written instructions by the Trust to the Indenture Trustee and Clearing System (in the case of clause (iii)):

- (A) with respect to each Global Note evidencing such Notes, the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, Definitive Notes in authorized denominations in exchange for the Global Note, in an aggregate principal amount equal to the Outstanding principal amount of the related Global Note. Upon the exchange of the Global Note for the Definitive Notes, such Global Note shall be cancelled by the Registrar. Definitive Notes issued in exchange for a Global Note pursuant to this Section 2.01(c) shall be registered in the Register in such names and in such denominations as the Clearing System for such Global Note, pursuant to the instructions from its direct or indirect participants or otherwise, shall instruct the Indenture Trustee, serving as custodian, on behalf of the nominee of the Depository, of the Global Note. The Indenture Trustee shall immediately provide the information to the Registrar. Immediately after the authentication of the Definitive Notes by the Indenture Trustee, the Indenture Trustee shall deliver such Definitive Notes to the Holders of such Notes;
- (B) if Definitive Notes are issued in exchange for any portion of a Global Note after the close of business at the Office or Agency for such Note where such exchange occurs on (1) any Regular Record Date for such Notes and before the opening of business at such Office or Agency on the next Interest Payment Date, or (2) any Special Record Date for such Notes and before the opening of business at such Office or Agency on the related proposed date for payment of interest or Defaulted Interest, as the case may be, interest shall not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Definitive Notes, but shall be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such Global Note shall be payable in accordance with the provisions of the Indenture; and
- (C) if for any reason Definitive Notes are not issued, authenticated and delivered to the Holders in accordance with paragraph (A) of this Section 2.01(c), then:

(1) the Clearing System or its successors may provide to each of its accountholders a statement of such accountholder's interest in the Notes evidenced by each Global Note held by such Clearing System or its successors, together with a copy of such Global Note; and

(2) subject to the limitations on individual Holder action contained in the Notes or the Indenture, each such accountholder or its successors and assigns (x) shall have a claim, directly against the Trust, for the payment of any amount due or to become due in respect of such accountholder's interest in the Notes evidenced by such Global Note, and shall be empowered to bring any claim, to the extent of such accountholder's interest in the Notes evidenced by such Global Note and to the exclusion of such Clearing System or its successors, that as a matter of law could be brought by the Holder of such Global Note and the Person in whose name the Notes are registered and (y) may, without the consent and to the exclusion of such Clearing System or its successors, file any claim, take any action or institute any proceeding, directly against the Trust, to compel the payment of such amount or enforce any such rights, as fully as though the interest of such accountholder in the Notes evidenced by such Global Note were evidenced by a Definitive Note in such accountholder's actual possession and as if an amount of Notes equal to such accountholder's stated interest were registered in such accountholder's name and without the need to produce such Global Note in its original form.

Notwithstanding anything in this paragraph (C) to the contrary, the Indenture Trustee shall not be required to recognize any account holder or any of its successors and assigns referred to in said paragraph as a Holder for any purpose of the Indenture or the Notes and shall be entitled to treat the Person in whose name the Global Note is registered as a Holder for all purposes of the Indenture and the Notes if and until Definitive Notes are issued to and registered in the names of such accountholders or their successors and assigns.

The account records of any Clearing System or its successor shall, in the absence of manifest error, be conclusive evidence of the identity of each accountholder that has any interest in the Notes evidenced by the Global Note held by such Clearing System or its successor and the amount of such interest. Definitive Notes shall be issued only in denominations as specified in the relevant Pricing Supplement.

(d) Subject to the other provisions of the Indenture, if any Global Note is exchanged for Definitive Notes, then:

(i) the Trust, the Indenture Trustee and any Paying Agent will have the right to treat each Holder of Definitive Notes as the Person exclusively

entitled to receive interest and other payments or property in respect of or in exchange for the Notes, and otherwise to exercise all the rights and powers with respect to any Note (subject to the record date provisions of the Indenture and of the Notes); and

(ii) the obligation of the Trust to make payments of principal, premium, if any, interest and other amounts with respect to the Notes shall be discharged at the time payment in the appropriate amount is made in accordance with the Indenture to each Holder.

SECTION 2.02. No Limitation on Aggregate Principal Amount of Notes. The aggregate principal amount of Notes which may be authenticated and delivered under the Indenture is unlimited. Unless otherwise specified in the applicable Pricing Supplement, the Notes shall be issued in denominations of \$1,000 and any larger amount that is a multiple of \$1,000; the authorized denominations of Notes that have a Specified Currency other than U.S. Dollars will be the appropriate equivalent in such Specified Currency. The specific terms and conditions of the Notes shall be set out in a Pricing Supplement and, if applicable, a supplemental indenture entered into pursuant to Section 8.01(e).

SECTION 2.03. Listing. If specified in the Pricing Supplement, the Notes will be listed on the securities exchange set forth in such Pricing Supplement.

SECTION 2.04. Redemption and Repayment.

(a) Except as otherwise provided in the Pricing Supplement, a supplemental indenture and the Notes or in Section 6.02, the Trust will redeem the Notes only if Principal Life redeems the Funding Agreement securing such Notes in an amount equal to the amount of the related Notes to be redeemed in accordance with the terms of the Indenture and the Notes, and the Trust will not redeem the Notes if Principal Life does not redeem the Funding Agreement securing such Notes in an amount equal to the amount of the Notes to be redeemed in accordance with the Indenture and the Notes. Unless otherwise specified in the relevant Pricing Supplement and a supplemental indenture or the Notes, the Trust may not redeem the Notes after the date that is thirty (30) calendar days prior to the Stated Maturity Date.

(b) If, but only if, specified in the Pricing Supplement and a supplemental indenture or the Notes, such Notes will be repayable at the option of the Holders thereof in accordance with the repayment provisions included in the Pricing Supplement and supplemental indenture or the Notes.

(c) In connection with the redemption by the Trust of the Notes under Section 2.04(a), upon receipt by the Trust of notice of redemption of the Funding Agreement from Principal Life, the Trust will promptly give written notice of such redemption to the Indenture Trustee and the Indenture Trustee will give written notice to the Holders in accordance with Section 1.06 not less than thirty (30) calendar days and no more than sixty (60) calendar days prior to the date set for such redemption. All notices of redemption shall identify the Notes to be redeemed (including the CUSIP numbers) and shall state:

(i) the redemption date;

(ii) the Redemption Price or, if not then ascertainable, the manner of calculation thereof;

(iii) that on the redemption date the Redemption Price will become due and payable on the Notes to be redeemed and that interest thereon will cease to accrue on and after said date; and

(iv) the place or places where the Notes to be redeemed are to be surrendered for payment of the Redemption Price.

(d) Prior to 10:00 a.m. New York City time on the redemption date, the Trust shall deposit with the Paying Agent an amount of money sufficient to pay the Redemption Price of and accrued and unpaid interest on all Notes which are to be redeemed on that date.

(e) Upon notice of redemption having been given pursuant to Section 2.04(c), the Notes to be so redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Trust shall default in the payment of the Redemption Price and accrued interest, if any) such Notes shall cease to bear or accrue any interest. Upon surrender of the Notes for redemption in accordance with said notice, such Notes shall be paid by the Trust at the Redemption Price, together with any accrued but unpaid interest to but not including the redemption date.

(f) The election of the Trust to redeem any Notes shall be evidenced by a Trust Certificate. In case of any redemption at the election of the Trust, the Trust shall, at least forty-five (45) calendar days prior to the redemption date fixed by the Trust (unless a shorter notice shall be satisfactory to the Indenture Trustee), notify the Indenture Trustee of such redemption date, and of the principal amount of Notes to be redeemed. In the case of any redemption of Notes (a) prior to the expiration of any restriction on such redemption provided in the terms of such Notes or elsewhere in the Indenture, or (b) pursuant to an election of the Trust which is subject to a condition specified in the terms of such Notes or elsewhere in the Indenture, the Trust shall furnish the Indenture Trustee with a Trust Certificate evidencing compliance with such restriction or condition.

(g) If less than all of the Notes are to be redeemed (unless such redemption affects only a single Note), the particular Notes to be redeemed shall be selected not more than sixty (60) calendar days prior to the redemption date by the Indenture Trustee, from the Outstanding Notes not previously called for redemption, by lot or pro rata, in its reasonable discretion, in accordance with the customary procedures of the Indenture Trustee; provided that the unredeemed portion of the principal amount of any Note shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Note; provided further, that if at the time of redemption such Notes are registered as Global Notes, the Depositary shall determine, in accordance with its procedures, the principal amount of such Notes to be redeemed by each of the Depositary's participants.

The Indenture Trustee shall promptly notify the Trust in writing of the Notes selected for redemption as aforesaid and, in the case of any Notes selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

For all purposes of the Indenture, unless the context otherwise requires, all provisions relating to the redemption of Notes shall relate, in the case of any Notes redeemed or to be redeemed only in part, to the portion of the principal amount of such Notes which has been or is to be redeemed.

(h) Any Note which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Trust or the Indenture Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trust and the Indenture Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Trust shall execute, and the Indenture Trustee shall authenticate and deliver to the Holder of such Note without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

(i) The Notes will not be subject to, or entitled to the benefit of, any sinking fund unless otherwise specified in the Pricing Supplement and a supplemental indenture of the Notes.

#### SECTION 2.05. Execution, Authentication and Delivery Generally.

(a) Upon the execution of any terms agreement pursuant to the Distribution Agreement (if the Relevant Agents agree to purchase the Notes on a principal basis), the acceptance of an offer to purchase Notes solicited by the Relevant Agents on an agency basis, or the acceptance of a direct offer of Notes for sale by the Trust, the Trust shall, as soon as practicable but in any event (unless otherwise agreed by the parties) not later than 11:00 a.m. (New York time) on the second Business Day following the date of Principal Life's acceptance of the offer for the purchase of Notes:

(i) confirm by fax to the Indenture Trustee, the Paying Agent and the Registrar, all such information as the Indenture Trustee, the Paying Agent or the Registrar may reasonably require to carry out their respective functions under the Indenture, including, in particular, the settlement and payment procedures that will apply to the relevant Notes and, if applicable, the account of the Trust to which payment should be made;

(ii) deliver a copy of the Pricing Supplement or duly executed supplemental indenture in relation to the relevant Notes to the Indenture Trustee, the Paying Agent and the Registrar; and

(iii) unless a Global Note is to be used and the Trust shall have provided such Global Note to the Registrar pursuant to Section 2.05(c), ensure that there is delivered to the Registrar a stock of Definitive Notes (in unauthenticated form and with the names of the registered Holders left blank but duly executed on behalf of the Trust and otherwise complete) in relation to the relevant Notes.

(b) The Trust will deliver to the Indenture Trustee on the Original Issue Date for the Notes a duly executed original of the Funding Agreement, Guarantee and Trust Agreement (unless previously delivered) and all documentation relating to the foregoing for the Notes.

(c) The Trust may, at its option, and shall, at the request of the Registrar, deliver from time to time to the Registrar a stock of Global Notes (in unauthenticated form but duly executed on behalf of the Trust).

(d) The Registrar shall, having been advised in accordance with Section 2.05(a) on behalf of the Trust, on which securities exchange, if any, the Notes are to be listed, deliver a copy of the Pricing Supplement or supplemental indenture in relation to each relevant Notes to such exchange or the relevant listing agent for such exchange as soon as practicable but in any event no later than two (2) Business Days prior to the proposed Original Issue Date therefor.

(e) Having received from the Trust the documents referred to in Section 2.05(a), (b) and (c) (to the extent applicable) (such documents constituting for all purposes of the Indenture a Trust Order for the authentication and delivery of the applicable Notes), on or before 10:00 a.m. (New York time) on the Original Issue Date in relation to the Notes (unless otherwise agreed by the parties), the Indenture Trustee shall authenticate and deliver the relevant Global Note to the relevant custodian for DTC and/or any other relevant Clearing System or otherwise in accordance with such Clearing System's procedures. The Indenture Trustee shall give instructions to DTC and/or any other relevant Clearing System to credit Notes represented by a Global Note registered in the name of a nominee for such Clearing System, to the Indenture Trustee's distribution account and to hold each such Note to the order of the Trust pending delivery to the Relevant Agent(s) on a delivery against payment basis (or on such other basis as shall have been agreed between the Trust and the Relevant Agent(s) and which the Indenture Trustee has been notified) in accordance with the normal procedures of DTC or such other Clearing System, as the case may be and, following payment (unless otherwise agreed), to debit the Notes represented by such Global Note to such securities account(s) as shall have been notified in writing to the Indenture Trustee by the Trust. The Indenture Trustee shall on the Original Issue Date in respect of the relevant Notes, and upon receipt of funds from the Relevant Agent(s), transfer, or cause to be transferred, the proceeds of issue (net of any applicable commissions, fees or like amounts specified in writing by Principal Life) to or as directed by Principal Life on behalf of the Trust to satisfy the deposit requirement pursuant to the Funding Agreement (as specified by Principal Life in such direction).

If no such securities account(s) shall have been specified, or the relevant Notes is not intended to be cleared through any Clearing System, the Indenture Trustee shall authenticate and make available at its specified office on the Original Issue Date in respect of the relevant Notes the relevant Global Note or the relevant Definitive Notes, as the case may be, duly executed and made available to the Indenture Trustee by the Trust.

(f) If the Indenture Trustee should pay an amount (an "ADVANCE") to the Trust in the belief that a payment has been or will be received from the Relevant Agents, and if such payment is not received by the Indenture Trustee on the date that the Indenture Trustee pays the Trust, the Trust shall forthwith repay the advance (unless prior to such repayment the payment is received from the Relevant Agents) and shall pay interest on such amount which shall accrue



(after as well as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an advance paid in Sterling) and the actual number of days elapsed from the date of payment of such advance until the earlier of (i) repayment of the advance or (ii) receipt by the Indenture Trustee of the payment from the Relevant Agents, and at the rate per annum which is the aggregate of one per cent per annum and the rate determined and certified by the Indenture Trustee and expressed as a rate per annum as reflecting its cost of funds for the time being in relation to the unpaid amount.

(g) The Notes shall be executed on behalf of the Trust by a Responsible Officer of the Trustee. The signature of any of these officers on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signatures of individuals who were at any time Responsible Officers of the Trustee shall bind the Trust, notwithstanding that any such individuals have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

Each Note shall be dated the date of its authentication.

No Note shall be entitled to any benefit under the Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form provided for in the Indenture executed by the Indenture Trustee by manual signature of an authorized officer, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered under the Indenture.

The Indenture Trustee's certificate of authentication shall be in substantially the following form:

This is one of the Notes of Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.,  
As Indenture Trustee

By: \_\_\_\_\_  
Authorized Signatory

Notes bearing the manual signatures of individuals who were at any time authorized officers of the Indenture Trustee shall bind the Trust, notwithstanding that any such individuals have ceased to hold such offices prior to the delivery of such Notes or did not hold such offices at the date of such Notes.

In authenticating Notes under the Indenture, the Indenture Trustee shall be entitled to conclusively assume that any Note authenticated by it has been duly executed on behalf of, and is a legal, valid, binding and enforceable obligation of, the Trust and is entitled to the benefits of the Indenture, and that the Trust Agreement, the Funding Agreement and the

Guarantee have been duly executed by, and are the legal, valid, binding and enforceable obligations of, the parties thereto.

(h) The Trust undertakes to notify the Paying Agent, the Registrar and, if different, the Indenture Trustee, in writing, of any changes in the identity of the agents appointed generally in respect of the Program.

SECTION 2.06. Registration. All Notes shall be registered and may be represented either as Global Notes or Definitive Notes. Unless otherwise specified in the relevant Pricing Supplement, Global Notes will be registered in the name of a nominee for, and deposited with, a custodian for DTC. The Registrar shall maintain a register (in the Indenture sometimes referred to as the "REGISTER") in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration of the Notes and registration of transfer of the Notes. The Register shall be in written form in English or in any other form capable of being converted into such form within a reasonable time. The Indenture Trustee is hereby initially appointed as the Registrar. In the event that the Indenture Trustee shall not be the Registrar, it shall have the right to examine the Register at all reasonable times. Subject to the definition of "Outstanding" in Section 1.01, the Trust, the Indenture Trustee, the Registrar or the Paying Agent or any other Agent may become the owner or pledgee of Notes and may deal with such Notes with the same rights of any other Holder of such Notes.

#### SECTION 2.07. Transfer.

(a) Subject to Section 2.01(c) and (d), (A) upon surrender for registration of transfer of any Note in accordance with its terms, the Trustee, on behalf of the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes denominated as authorized in or pursuant to the Indenture, of a like aggregate principal amount bearing a number not contemporaneously outstanding and containing identical terms and provisions and (B) at the option of the Holder, Notes may be exchanged, in accordance with their terms, for other Notes containing identical terms and provisions, in any authorized denominations, and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at the Office or Agency of the Indenture Trustee. Whenever any Notes are surrendered for exchange as contemplated by this Section 2.07(a), the Trust shall execute, and the Indenture Trustee shall authenticate and deliver, the Notes which the Holder making the exchange is entitled to receive. Definitive Notes shall not be exchanged for Global Notes. Beneficial interests in Global Notes may be transferred or exchanged only through the Depositary. No Global Note may be transferred except as a whole by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or another nominee of the Depositary to a successor of the Depositary or a nominee of a successor to the Depositary. With respect to any Global Note, the Depositary or its nominee is the Holder of such Global Note for the purposes of the Indenture. Except as set forth in Section 2.01(c), the beneficial owners of any Global Note will not be entitled to receive Definitive Notes and shall not be considered "Holders" under the Indenture.

(b) All Notes issued upon a registration of transfer or exchange of Notes shall be the valid obligations of the Trust evidencing the same debt and entitling the Holders thereof to

the same benefits under the Indenture as the Notes surrendered upon such registration of transfer or exchange.

(c) No service charge shall be made for any registration of transfer or exchange, of Notes, but the Indenture Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes (other than certain exchanges not involving any transfer).

#### SECTION 2.08. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Indenture Trustee directly or through any Paying Agent or (ii) in the case of an alleged destroyed, lost or stolen Note, the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of the Note and there is delivered to the Indenture Trustee, the Registrar and the Trust such security or indemnity as may be required by the Indenture Trustee, the Registrar and the Trust to save the Indenture Trustee, the Registrar and the Trust harmless, then in either case the Trust shall execute and the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen Note, a new Note, of the same maturity, tenor and principal amount as such mutilated, destroyed, lost or stolen Note, bearing a number not contemporaneously outstanding; provided, however, that if any such mutilated, destroyed, lost or stolen Note shall have become or shall be about to become due and payable, instead of issuing a new Note, the Trust may pay such Note without surrender of such Note, except that any mutilated Note shall be surrendered.

(b) Upon the issuance of any new Note under this Section 2.08, the Indenture Trustee or the Trust may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee, Registrar or any Paying Agent) in connection therewith.

(c) Every new Note issued pursuant to this Section 2.08 in lieu of any destroyed, lost or stolen Note shall constitute a separate obligation of the Trust, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Notes duly issued under the Indenture. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

#### SECTION 2.09. Payment of Interest; Rights To Interest Preserved.

(a) The Notes shall bear interest at a rate and on terms stated on the Notes.

(b) Any interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date, shall be paid to the Person in whose name that Note is registered at the close of business on the Regular Record Date for such interest payment (except that interest, if any, on any Note due on the Maturity Date will be paid to the Person to whom the principal of the Note is paid).

(c) Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (in the Indenture called "DEFAULTED INTEREST") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of their having been such Holder, and such Defaulted Interest shall be paid by the Trust to the Persons in whose names such Notes (or their respective predecessor Notes) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trust shall notify the Indenture Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment. Thereupon the Indenture Trustee shall fix a date for the payment of such Defaulted Interest which shall be not more than fifteen (15) days and not less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Indenture Trustee of the notice of the proposed payment (the "SPECIAL RECORD DATE"). The Indenture Trustee shall promptly notify the Trust of such Special Record Date and, in the name of the Trust shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder in accordance with Section 1.06. The Trust may make payment of any Defaulted Interest on the Notes in any other lawful manner not inconsistent with the requirements of any securities exchange, if any, on which such Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Trust to the Indenture Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Indenture Trustee. Subject to the foregoing provisions of this Section, each Note delivered under the Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 2.10. Cancellation. All Notes surrendered for payment, registration of transfer or exchange shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly cancelled by it. Principal Life or any Affiliate thereof shall promptly deliver to the Indenture Trustee for cancellation any Note previously authenticated and delivered under the Indenture that Principal Life or such Affiliate may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Indenture Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by the Indenture. All cancelled Notes held by the Indenture Trustee shall be disposed of by the Indenture Trustee in accordance with its customary procedures, unless the Trust shall otherwise direct by a Trust Order.

SECTION 2.11. Persons Deemed Owners. Prior to due presentment for registration of transfer of any Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust, or the Indenture Trustee may treat the Person in whose name any Note is registered as the absolute and sole owner of such Note for the purpose of receiving payment of the principal of, any premium, or interest on or any Additional Amounts with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and, except as otherwise required by applicable law, none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

SECTION 2.12. Tax Treatment; Tax Returns and Reports.

(a) The Trust agrees, and by acceptance of a beneficial interest in a Note, each holder of a beneficial interest in a Note agrees, for U.S. federal, state and local income and franchise tax purposes, to (i) disregard the Trust and (ii) treat such Note as debt of Principal Life.

(b) The Trust Agreement provides that the Trustee shall prepare and file or cause to be prepared or filed, consistent with the treatment of the Trust as disregarded, all federal, state and local income tax and information returns and reports required to be filed with respect to the Trust and the Notes under any applicable federal, state or local tax statute or any rule or regulation under any of them. The Trust Agreement provides that the Trustee shall keep copies or cause copies to be kept of any such tax and information returns and reports required to be filed. The Indenture Trustee agrees to provide to the Trustee such information, upon receipt of written request from the Trust, as is necessary for the Trustee to fulfill its obligations under this Section 2.12.

SECTION 2.13. No Association. Nothing set forth in the Indenture shall be construed to constitute the Holders of Notes, from time to time, as members of an association.

SECTION 2.14. Administrative Procedures. The Indenture Trustee shall comply with the Procedures (as defined in the Distribution Agreement), as they may be amended from time to time in accordance with the terms of the Distribution Agreement.

ARTICLE 3  
COVENANTS, REPRESENTATIONS AND WARRANTIES

SECTION 3.01. Payment of Principal and any Premium, Interest and Additional Amounts. The Trust covenants and agrees, for the benefit of the Holders of the Notes, that it will:

(a) Pay or cause to be paid to the Paying Agent on or before the date on which any payment becomes due, an amount equal to the amount of principal (and premium, if any) and interest and any Additional Amount (if applicable) payable in respect of the Notes then becoming due in respect of the Notes.

(b) Pay each amount payable to the Paying Agent under Section 3.01(a) by transfer of immediately available funds denominated in the Specified Currency not later than 10:00 a.m. (at the Place of Payment) on the date when such amounts are due and payable in respect of the Notes.

(c) Confirm, before 10:00 a.m. (at the Place of Payment) on the second Business Day before the due date of each payment by it under Section 3.01(a) to the Paying Agent by confirmed facsimile, that irrevocable instructions have been given by it, for the transfer of the relevant funds to the Paying Agent and the name and the account of the bank through which such payment is being made.

For purposes of this Section 3.01, an installment of principal, premium, if any, or interest and any other amount payable in respect of the Notes shall be considered paid on the date it is due if the Trust has deposited, or caused to be deposited, with the Paying Agent by such date money designated for, and capable of being applied towards, and sufficient to pay such installment.

SECTION 3.02. Collection Account. The Indenture Trustee shall, on or prior to the initial Original Issue Date, establish a non-interest bearing account with the Indenture Trustee or such other depository institution that is rated at least AA- or Aa3 by a nationally recognized statistical rating organization as may be designated by the Trustee, in the name of the Trust, which account shall collect payments received under the applicable Funding Agreement and/or related Guarantee and shall be segregated from other accounts held by the Indenture Trustee or such other depository institution.

SECTION 3.03. Agreements of the Paying Agent. The Paying Agent agrees that:

(a) The Paying Agent shall be entitled to deal with each amount paid to it under the Indenture in the same manner as other amounts paid to it as a banker by its customers provided that:

(i) the Paying Agent shall not, against the Trust or any Holder of a Note, exercise any lien, right of set-off or similar claim in respect thereof (except as otherwise provided or permitted under the Indenture);

(ii) the Paying Agent shall not be liable to any Person for interest thereon;

(iii) the Paying Agent need not segregate any money held by it except as required by law or as otherwise provided under the Indenture; and

(iv) the Paying Agent shall comply with the provisions of Section 317(b) of the Trust Indenture Act and agrees that it will, during the continuance of any default by the Trust (or any other obligor upon the Notes) in the making of any payment in respect of the Notes, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums held in trust by such Paying Agent for payment in respect of the Notes.

(b) The Paying Agent shall pay or cause to be paid by transfer of immediately available funds denominated in the Specified Currency to the Holders all moneys received by the Paying Agent for such purpose from the Trust pursuant to Section 3.01. In the event a Note is issued between a Regular Record Date or Special Record Date and the related Interest Payment Date, interest for the period beginning on the original issue date for such Note or the previous Interest Payment Date, as the case may be, and ending on the subject Interest Payment Date will be paid on the immediately following Interest Payment Date to the Person who was the registered Holder of such Note as of the immediately preceding Regular Record Date. With respect to Global Notes, the Paying Agent shall pay principal, premium, if any, interest and any other amounts due on such Global Notes in accordance with the Notes and the arrangements established by and between the Paying Agent and the Depository. Notwithstanding anything in the Indenture to the contrary, payments of principal and premium, if any, in respect of Definitive

Notes on the Maturity Date shall be made as provided in or pursuant to the Indenture in immediately available funds against presentation and surrender of the relevant Definitive Notes at the designated office of the Registrar in The City of New York, as provided in the Indenture or in the applicable Definitive Note. Payments of interest and other amounts due and owing, if any, on the Maturity Date of Definitive Notes shall be made to the Person to whom payment of the principal thereof and premium, if any, thereon shall be made. Notwithstanding anything in the Indenture to the contrary, interest on Definitive Notes other than on the Maturity Date shall be paid to the person shown in the applicable Register at the close of business on the Regular Record Date or Special Record Date, as applicable, as provided in or pursuant to the Indenture before the due date for payment thereof. Notwithstanding anything in the Indenture to the contrary, payments of interest and other amounts due and owing on each Definitive Note other than the Maturity Date shall be made in the currency in which such payments are due by check drawn on a bank in the Principal Financial Center of the country of the Specified Currency and mailed to the holder (or to the first named of joint holders) of such Definitive Note at its address appearing in the applicable Register. Notwithstanding the foregoing, the Paying Agent shall make, or cause to be made, payments of interest and other amounts due and owing, if any, on a Definitive Note on any Interest Payment Date other than the Maturity Date to each Holder of \$10,000,000 (or, if the Specified Currency is other than United States dollars, the equivalent thereof in the particular Specified Currency) or more in aggregate principal amount of Definitive Notes by wire transfer of immediately available funds if the applicable Holder has delivered appropriate wire transfer instructions in writing to the Paying Agent not less than fifteen (15) calendar days prior to the particular Interest Payment Date. Any such wire transfer instructions received by the Paying Agent shall remain in effect until revoked by the applicable Holder. All moneys paid to the Paying Agent by the Trust in respect of any Note shall be held by the Paying Agent from the moment when such moneys are received until the time of actual payment thereof, for the persons entitled thereto, and shall be applied in accordance with Section 3.03 (c) through (g); provided, that the obligation of the Paying Agent to hold such moneys shall be subject to the provisions of Section 3.08.

(c) The Paying Agent acting through its specified office shall make payments of interest and Additional Amounts (if applicable) or, as the case may be, principal in respect of the Notes in accordance with the terms thereof and of the Indenture, provided that such Paying Agent shall not be obliged (but shall be entitled) to make such payments if it is not able to establish that it has received (whether or not at the due time) the full amount of the relevant payment due to it under Section 3.01(a). Payment of any Note redemption amount (together with accrued interest) due in respect of Notes will be made against presentation and surrender of the relevant Notes at the specified office of the Paying Agent, subject to Section 2.04(h). Payment of amounts (whether principal, interest or otherwise) due in respect of Notes will be paid by the Paying Agent to the Holder thereof (or, in the case of joint Holders, the first named) which shall be the person appearing as Holder in the register kept by the Registrar as at the close of business (local time in the place of the specified office of the Registrar) on the Regular Record Date.

(d) If a Paying Agent makes any payment in accordance with paragraph (c), it shall be entitled to appropriate for its own account out of the funds received by it under Section 3.01(a) an amount equal to the amount so paid by it.

(e) If a Paying Agent makes a payment in respect of Notes at a time at which it has not received the full amount of the relevant payment due to it under Section 3.01(a) and is not able to reimburse itself out of funds received by it under Section 3.01(a) therefor by appropriation under paragraph (e), the Trust shall from time to time on demand pay to the Paying Agent for its own account:

(i) the amount so paid out by such Paying Agent and not so reimbursed to it; and

(ii) interest on such amount from the date on which such Paying Agent made such payment until the date of reimbursement of such amount;

provided that any payment made under clause (i) above shall satisfy pro tanto the Trust's obligations under Section 3.01(a).

(f) Interest shall accrue for the purpose of clause (ii) of paragraph (f) (as well after as before judgment) on the basis of a year of 360 days (365 days (366 days in the case of a leap year) in the case of an amount in Sterling) and the actual number of days elapsed and at the rate per annum which is the aggregate of one percent per annum and the rate per annum specified by the Paying Agent as reflecting its cost of funds for the time being in relation to the unpaid amount.

(g) If at any time and for any reason a Paying Agent makes a partial payment in respect of any Note surrendered for payment to it, such Paying Agent shall endorse thereon and in the Register a statement indicating the amount and date of such payment.

#### SECTION 3.04. Maintenance of Office or Agency.

(a) The Trust will maintain in the Place of Payment an Office or Agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Trust in respect of the Notes and the Indenture may be served; provided, however, that if the Notes are listed on any stock exchange and the rules of such stock exchange shall so require, the Trust shall maintain an Office or Agency in any other required city so long as the Notes are listed on such exchange. The Trust will give prompt written notice to the Indenture Trustee of the location, and any change in the location, of such Office or Agency. If at any time the Trust shall fail to maintain any such required Office or Agency or shall fail to furnish the Indenture Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Indenture Trustee and the Trust hereby appoints the Indenture Trustee as its agent to receive such respective presentations, surrenders, notices and demands. The Trust shall promptly notify the Indenture Trustee of the name and address of each Paying Agent (if different than the Indenture Trustee) appointed by it and will notify the Indenture Trustee of the resignation or termination of any Paying Agent.

(b) The Trust may also from time to time designate one or more other Offices or Agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or



rescission shall in any manner relieve the Trust of its obligation to maintain the Offices or Agencies for Notes in the Place of Payment for the foregoing purposes. The Trust shall give prompt written notice to the Indenture Trustee of any such designation or rescission and of any change in the location of any such Office or Agency.

(c) Unless otherwise provided in or pursuant to the Indenture, the Trust hereby appoints the Indenture Trustee as Paying Agent, Registrar and Transfer Agent.

#### SECTION 3.05. Duties of the Agents.

(a) The Trust shall provide to the Paying Agent sufficient copies of all documents required to be available for inspection as provided in the Registration Statement or the Pricing Supplement in respect of the Notes.

(b) To the extent permitted by applicable law, the Paying Agent shall make available for inspection during normal business hours at its specified office such documents as may be specified as so available at the specified office of the Paying Agent in respect of the Notes, or as may be required by any stock exchange on which the Notes may be listed.

(c) Notwithstanding anything to the contrary, the Trust shall be solely responsible for ensuring that each Note to be issued or other transactions to be effected under the Indenture shall comply with all applicable laws and regulations of any governmental or other regulatory authority in connection with any Note and that all necessary consents and approvals of, notifications to and registrations and filings with, any such authority in connection therewith are effected, obtained and maintained in full force and effect.

(d) The Paying Agent shall collect all forms from Holders or, in the case of Notes held in a Clearing System, from the relevant Clearing System, that are required to exempt payments under the Notes, the related Guarantee, and/or the related Funding Agreement, from United States federal income tax withholding. The Paying Agent shall (i) withhold from each payment under the Indenture or under any Note any and all United States federal or state withholding taxes applicable thereto as required by law and (ii) file any information reports as it may be required to file under applicable law.

(e) Each Agent shall be obligated to perform such duties and only such duties as are set out in the Indenture and no implied duties or obligations shall be read into the Indenture against such Agent.

(f) Each Agent shall be protected and shall incur no liability for or in respect of any action taken, omitted or suffered in reliance upon any instruction, request or order from the Trust or any notice, resolution, direction, consent, certificate, affidavit, statement, facsimile, telex or other paper or document (duly signed or which it believes in good faith to have been duly signed, where applicable) which it believes in good faith to be genuine and to have been delivered, signed or sent by the proper party or parties.

(g) Each Agent and any of its officers, directors, employees or controlling persons may become the owner of, or acquire any interest in, any Note, with the same rights that it or he would have if it or he were not appointed under the Indenture, and may engage or be

interested in, any financial or other transaction with the Trust, PFG or Principal Life, or any Affiliate thereof, or may act as depositary, trustee or agent for any committee or body of Holders, as freely as if it or he were not appointed under the Indenture.

(h) Each Agent may consult with legal and other professional advisers and the opinion of the advisers shall be full and complete protection in respect of action taken, omitted or suffered under the Indenture in good faith and in accordance with the opinion of the advisers.

(i) Under no circumstances will the Paying Agent or any other Agent be liable to the Trust, or any other party to the Indenture for any consequential loss (being loss of business, goodwill, opportunity or profit), punitive damages or indirect loss even if advised of the possibility of such loss.

SECTION 3.06. Duties of the Transfer Agent. If and to the extent specified in the terms and conditions of the Notes or if otherwise requested by the Trust or Indenture Trustee, the Transfer Agent shall in compliance with the Notes and the Indenture:

(a) Receive requests from Holders of Notes for the transfer of Definitive Notes, inform the Registrar in writing of the receipt of such requests, forward the deposited Definitive Note(s) to or to the order of the Registrar and assist in the issuance of a new Definitive Note and in particular, without limitation, notify the Registrar in writing of (i) the name and address of the Holder of the Definitive Note, (ii) the serial number and principal amount of the Definitive Note, (iii) in the case of a transfer of a portion of the Note only, the principal amount of the Definitive Note to be so transferred and (iv) the name and address of the transferee to be entered on the Register;

(b) Make available for collection by each relevant Holder new Definitive Notes;

(c) Accept surrender of Definitive Notes and assist in effecting final payment of the Notes on the due date for payment;

(d) Keep the Registrar informed of all transfers; and

(e) Carry out such other acts as may reasonably be necessary to give effect to the Notes and the Indenture.

SECTION 3.07. Duties of the Registrar.

(a) The Registrar shall maintain a Register which shall show the aggregate principal amount and date of issue of the Notes, the names and addresses of the initial Holders thereof and the dates of all transfers to, and the names and addresses of, all subsequent Holders thereof.

(b) The Registrar shall by the issue of new Notes, the cancellation of old Notes and the making of entries in the Register give effect to transfers of Notes in accordance with the Indenture.

(c) The Trust may from time to time deliver to the Registrar Notes of which it is the Holder for cancellation, whereupon the Registrar shall cancel the same and shall make the corresponding entries in the Register.

(d) As soon as reasonably practicable but in any event within ninety (90) calendar days after each date on which Notes fall due for redemption, the Registrar shall notify the Trust of the serial numbers of any Notes against surrender of which payment has been made and of the serial numbers of any Notes (and the names and addresses of the Holders thereof) which have not yet been surrendered for payment.

(e) The Registrar shall, upon and in accordance with the instructions of the Trust but not otherwise, arrange for the delivery in accordance with the Indenture of any notice which is to be given to the Holders of Notes and shall supply a copy thereof to the Indenture Trustee and the Paying Agent.

(f) The Trust shall ensure that the Registrar has available to it supplies of such Notes as shall be necessary in connection with the transfer of Notes and the exchange of Global Notes for Definitive Notes. (g) The Registrar shall make available, at the request of the Holder of any Note, forms of proxy in a form and manner which comply with the provisions of the Indenture and shall perform and comply with the provisions of the Indenture.

(h) The Trust shall provide to the Registrar:

(i) specimen Notes in definitive form; and

(ii) sufficient copies of all documents required to be available for inspection as provided in the Registration Statement or the Pricing Supplement in respect of the Notes, as may be required by any securities exchange on which the Notes may be listed, or as may be required by applicable law.

(i) The Registrar shall make available for inspection during normal business hours at its specified office such documents as may be specified as so available at the specified office of such Registrar, as may be required by any securities exchange on which the Notes may be listed, or as may be required by applicable law.

(j) The Registrar shall provide the Paying Agent and/or the Indenture Trustee with all such information in the Registrar's possession with respect to the Notes as the Paying Agent or the Indenture Trustee, as the case may be, may reasonably require in order to perform the obligations set out in the Indenture.

(k) The Registrar shall ensure that in no event shall Definitive Notes be exchanged for Global Notes.

SECTION 3.08. Unclaimed Monies. Any money deposited with the Indenture Trustee, Registrar or the Paying Agent for the payment of the principal of, premium, if any, or interest on

any Note and remaining unclaimed for two years after such principal or any such premium or interest had become due and payable shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, be paid to Principal Life pursuant to a Trust Request and pursuant to the applicable Funding Agreement; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to Principal Life for payment thereof, and all liability of the Indenture Trustee, Registrar or the Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee, Registrar or the Paying Agent, before being required to make any such repayment, may cause to be published once, in an Authorized Newspaper in each Place of Payment or to be mailed to Holders, or both, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (30) calendar days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to Principal Life.

#### SECTION 3.09. Protection of Collateral.

(a) The Trust shall, from time to time, execute and deliver all such supplements and amendments to the Indenture and all such financing statements, continuation statements, instruments of further assurance, and other instruments, and take such other action as may be necessary or advisable to:

(i) create, perfect or maintain a perfected security interest in, grant, or make or maintain a valid and effective assignment for collateral purposes of, all or any portion of the Collateral (including without limitation the Funding Agreement and the Guarantee included therein);

(ii) maintain or preserve any Lien of the Indenture, the Funding Agreement or the Guarantee or carry out more effectively the purposes of the Indenture or thereof;

(iii) perfect, publish notice of, or protect the validity of, any security interest or assignment for collateral purposes made pursuant to the Indenture, the Funding Agreement or the Guarantee;

(iv) enforce any portion, or obtain the full benefits, of the Collateral (including without limitation the Funding Agreement and the Guarantee included therein); and

(v) preserve and defend title to the Collateral and the rights of the Indenture Trustee and of the Holders in the Collateral held for the benefit and security of the Holders or other instrument against the claims of all Persons.

The Trust hereby designates the Indenture Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required or permitted pursuant to this Section 3.09; provided, however, that the duty of the Indenture Trustee to execute any instrument required pursuant to this Section 3.09 shall arise only if any Responsible Officer of the Indenture Trustee has actual knowledge of any failure of the Trust to comply with the provisions of this Section 3.09.

(b) The Trust will pay or cause to be paid all taxes and fees incidental to such filing, registration and recording, and all expenses incidental to the preparation, execution and acknowledgment of any instrument of further assurance, and all Federal or state or jurisdiction of organization of the Trust stamp taxes or other similar taxes, duties and charges arising out of or in connection with the execution and delivery of such instruments; provided, however, that the Trust shall not be required to pay or discharge or cause to be paid or discharged any Lien affecting the Collateral to the extent such Lien is being contested in good faith by appropriate proceedings. The Trust will at all times preserve, warrant and defend the Indenture Trustee's title and right in and to the property included in the Collateral against the claims of all Persons.

(c) The Trust will faithfully observe and perform, or cause to be observed and performed, all its covenants, agreements, conditions and requirements contained in the Funding Agreement in accordance with the terms thereof and will maintain the validity and effectiveness of the Funding Agreement and the security interest therein or the assignment for collateral purposes thereof to the Indenture Trustee. The Trust will take no action, nor permit any action to be taken, which will release any party to the Funding Agreement from any of its obligations or liabilities thereunder, or will result in the termination, modification or amendment, or will impair the validity, of the Funding Agreement except as expressly provided for in the Indenture and therein. The Trust will give the Indenture Trustee written notice of any default by any party to the Funding Agreement promptly after it becomes known to the Trust.

(d) The Trust will faithfully observe and perform, or cause to be observed and performed, all its covenants, agreements, conditions and requirements contained in the Guarantee in accordance with the terms thereof and will maintain the validity and effectiveness of the Guarantee and the security interest therein or the assignment for collateral purposes thereof to the Indenture Trustee. The Trust will take no action, nor permit any action to be taken, which will release any party to the Guarantee from any of its obligations or liabilities thereunder, or will result in the termination, modification or amendment, or will impair the validity, of the Guarantee except as expressly provided for in the Indenture and therein. The Trust will give the Indenture Trustee written notice of any breach by any party to the Guarantee promptly after it becomes known to the Trust.

(e) At the written request of the Indenture Trustee and also following the occurrence of an "Event of Default" under the Funding Agreement or a breach of PFG's obligations under the Guarantee, the Trust will, subject to the written direction and control of the Indenture Trustee, take such action, or at the Indenture Trustee's written request furnish funds sufficient to enable the Indenture Trustee to take such action, as the Indenture Trustee may deem necessary or advisable for enforcing payment when due, subject to applicable notice and grace periods, under or pursuant to the Indenture, the Funding Agreement or the Guarantee.

#### SECTION 3.10. Opinions as to Collateral; Annual Statement as to Compliance.

(a) On or before the 15th day of March of each calendar year, commencing March 15, 2005, the Trust shall furnish or cause to be furnished to the Indenture Trustee an Opinion of Counsel stating that, in the opinion of such counsel, either (i) such action has been taken with respect to the recording, filing, re-recording and re-filing of the Indenture, any indentures supplemental to the Indenture and any other requisite documents and with respect to the execution and filing of

any financing statements and continuation statements as is necessary to perfect and/or maintain the perfection of liens, security interests and assignments for collateral purposes created or effected pursuant to the Indenture with respect to the Funding Agreement and the Guarantee that is part of any Collateral and reciting the details of such action or (ii) in the opinion of such counsel no such action is necessary to perfect and/or maintain the perfection of such lien, security interest and/or assignment for collateral purposes. Such Opinion of Counsel shall also describe the recording, filing, re-recording and re-filing of the Indenture, any indentures supplemental to the Indenture and any other requisite documents and the execution and filing of any financing statements and continuation statements that will, in the opinion of such counsel, be required to perfect and/or maintain the perfection of the liens, security interests and assignments for collateral purposes created or effected pursuant to the Indenture with respect to the Funding Agreement and the Guarantee that is part of any Collateral until the 15th day of March in the following calendar year.

(b) On or before the 15th day of March in each calendar year, commencing March 15, 2005, the Trust shall deliver to the Indenture Trustee a Trust Certificate stating, as to each signer thereof, that in the course of the performance by each signer of such Trust Certificate of his or her present duties as a Responsible Officer of the Trustee, such signer would normally obtain knowledge as to the existence of any condition or event which would constitute a Default or an Event of Default and that to the best of such signer's knowledge:

(i) a review of the fulfillment by the Trust and during such year of its obligations under the Indenture has been made under the supervision of such signer; and

(ii) the Trust has fulfilled in all material respects its obligations under the Indenture throughout such year, or, if there has been a Default or an Event of Default in the fulfillment of any such obligation, specifying each such Default or Event of Default known to such signer and the nature and status thereof.

(c) The Trust, pursuant to Section 314(a) of the Trust Indenture Act, shall:

(i) file, or cause to be filed, with the Indenture Trustee, within fifteen (15) days after the Trust or Principal Life is required to file the same with the Commission and to the extent available to the Trust, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Trust or Principal Life may be required to file with the Commission in connection with the Program pursuant to Section 13 or Section 15(d) of the Securities Exchange Act; or, if the Trust or Principal Life is not required to file information, documents or reports pursuant to either of said Sections, then it shall file, or cause to be filed, with the Indenture Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act in respect of a security listed and registered on a national

securities exchange as may be prescribed from time to time in such rules and regulations; provided that if, pursuant to any publicly available interpretations of the Commission, the Trust or Principal Life would not be required to make such filings in connection with the Program under Section 314(a) of the Trust Indenture Act, then the Trust or Principal Life shall not be required to make such filings;

(ii) file, or cause to be filed, with the Indenture Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect to compliance by the Trust, with the conditions and covenants of the Indenture as may be required from time to time by such rules and regulations; and

(iii) transmit, or cause to be transmitted, within thirty (30) days after the filing thereof with the Indenture Trustee, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, such summaries of any information, documents and reports required to be filed by the Trust pursuant to paragraphs (i) and (ii) of this Section 3.10(c) as may be required by rules and regulations prescribed from time to time by the Commission.

(d) The Trust shall comply with the provisions of Section 314(d) of the Trust Indenture Act.

SECTION 3.11. Performance of Obligations. The Trust may contract with other Persons for the performance of the Trust's obligations under the Indenture (other than the execution and delivery of Trust Requests, Trust Orders and Trust Certificates) and the performance of such obligations by such other Persons shall be deemed to be the performance thereof by the Trust, as applicable.

#### SECTION 3.12. Existence.

(a) The Trust will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises as a trust formed under the jurisdiction set forth in the Omnibus Instrument, as applicable, and, upon the advice of counsel, will obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of the Indenture, the Notes or any portion of the Collateral. The Trust will, promptly after any amendment or modification of the Trust Agreement, send copies thereof to the Indenture Trustee and the Rating Agencies.

(b) The Trust will maintain books and records and bank accounts separate from those of any other Person and any other trust organized under the Program; will at all times hold itself out to the public as separate and distinct from any Affiliates and each other trust organized under the Program; and file or cause to be filed its own tax returns.

(c) The Trust shall maintain its assets and transactions separately from those of any Affiliates and any other trust organized under the Program, reflect such assets and transactions in financial statements separate and distinct from those of any Affiliates and any

other trust organized under the Program and evidence such assets and transactions by appropriate entries in books and records separate and distinct from those of any Affiliates (including any other trust organized under the Program).

SECTION 3.13. Reports; Financial Information; Notices of Defaults.

(a) The Trust shall promptly deliver to the Indenture Trustee copies of all reports, statements and information received by it pursuant to the Funding Agreement, the Guarantee or otherwise in respect of the Collateral.

(b) The Trust shall promptly inform the Indenture Trustee in writing of the occurrence of any Default or Event of Default which is continuing of which it has actual knowledge. Each notice given pursuant to this Section 3.13(b) shall be accompanied by a Trust Certificate setting forth details of the occurrence referred to therein and stating what action, if any, the Trust has taken or proposes to take with respect thereto.

(c) The Trust shall collect all forms (or, if applicable, copies of such forms), if any, from the Paying Agent or Registrar (or from such other persons as are relevant) that are required to exempt payments under the Notes, the Guarantee or the Funding Agreement from United States federal income tax withholding. In addition, the Trust shall execute and file such forms and take such actions for United States federal income tax purposes as shall be reasonable and necessary to ensure that payments of interest, principal, premium and Additional Amounts, if applicable, in respect of the Notes, the Funding Agreement or the Guarantee are not subject to United States federal withholding or backup withholding tax.

(d) In accordance with Section 312(a) of the Trust Indenture Act, the Trust shall furnish or cause to be furnished to the Indenture Trustee:

(i) semi-annually with respect to Notes not later than the 15th day of March and the 15th day of September of each year or upon such other dates as are set forth in or pursuant to a Trust Order or indenture supplemental to the Indenture a list, in each case in such form as the Indenture Trustee may reasonably require, of the names and addresses of Holders as of the applicable date, and

(ii) at such other times as the Indenture Trustee may request in writing, within thirty (30) days after the receipt by the Trust of any such request, a list of similar form and content as of a date not more than fifteen (15) days prior to the time such list is furnished,

provided, however, that so long as the Indenture Trustee is the Registrar no such list shall be required to be furnished.

(e) The Indenture Trustee shall comply with the obligations imposed upon it pursuant to Section 312 of the Trust Indenture Act.

Every Holder, by receiving and holding Notes, agrees with the Trust and the Indenture Trustee that neither the Trust, the Indenture Trustee, the Paying Agent or the Registrar shall be held accountable by reason of the disclosure of any such information as to the names and



addresses of the Holders in accordance with Section 312(c) of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Indenture Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

(f) (i) Within sixty (60) days after the 15th day of March of each year commencing with the first such date following the first issuance of Notes, if required by Section 313(a) of the Trust Indenture Act, the Indenture Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, a brief report dated as of such 15th day of March of such year with respect to any of the events specified in said Section 313(a) of the Trust Indenture Act which may have occurred since the later of the immediately preceding 15th day of March and the date of the Indenture.

(ii) The Indenture Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, the reports required by Section 313(b) of the Trust Indenture Act at the time specified therein.

(iii) Reports pursuant to this Section shall be transmitted in the manner and to the Persons required by Sections 313(c) and 313(d) of the Trust Indenture Act.

SECTION 3.14. Payment of Taxes and Other Claims. The Trust will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Trust or upon the income, profits or property of the Trust, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon the property of the Trust; provided, however, that the Trust shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings. The Trust shall comply with the requirements of all other applicable laws, the non-compliance with which would, individually or in the aggregate, materially and adversely affect the condition (financial or otherwise) of the Trust or which would impair in any material respect the ability of the Trust to perform its obligations under the Notes or the Indenture.

SECTION 3.15. Negative Covenants. So long as any Notes are Outstanding, the Trust will not take any of the following actions, except as otherwise permitted under the Indenture:

(a) sell, transfer, exchange, assign, lease, convey or otherwise dispose of any assets held by the Trust (owned as of the date of the Trust Agreement or thereafter acquired), including, without limitation, any portion of the Collateral, except as expressly permitted by the Indenture;

(b) incur or otherwise become liable, directly or indirectly, for any Indebtedness or Contingent Obligation except for the Notes issued pursuant to the Indenture and the transactions contemplated thereby;

(c) engage in any business or activity other than in connection with, or relating to, (i) the performance of the Trust Agreement and the execution, delivery and

performance of any documents (other than the Trust Agreement), including the Program Documents, relating to the Notes issued under the Indenture and the transactions contemplated thereby, and (ii) the issuance of the Notes pursuant to the Indenture;

(d) (i) permit the validity or effectiveness of the Indenture or any grant of security interest in or assignment for collateral purposes of the Collateral to be impaired, or permit a Lien created under the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations under any document or agreement assigned to the Indenture Trustee, except as may be expressly permitted by the Indenture, (ii) create, incur, assume or permit any Lien or other encumbrance (other than the Lien created by the Indenture) on any of its properties or assets owned or thereafter acquired, or any interest therein or the proceeds thereof, or (iii) permit a Lien created under the Indenture not to constitute a valid first priority perfected security interest in the Collateral;

(e) amend, modify or fail to comply with any material provision of the Trust Agreement except for any amendment or modification of the Trust Agreement expressly permitted thereunder;

(f) own any subsidiary or lend or advance any funds to, or make any investment in, any Person, except for an investment in the Funding Agreement or the investment of any funds held by the Indenture Trustee, the Paying Agent or the Trustee as provided in the Indenture or the Trust Agreement;

(g) directly or indirectly declare or make any distribution or other payment to, or redeem or otherwise acquire or retire for value the interest of, the Trust Beneficial Owner if any amount under the Notes is due and unpaid, or directly or indirectly redeem or otherwise acquire or retire for value any Indebtedness or Contingent Obligation other than the Notes;

(h) exercise any rights with respect to the Collateral except at the written direction of, or with the prior written approval of, the Indenture Trustee;

(i) cause or, to the fullest extent permitted by law, permit the sale or other transfer of all or a portion of the Trust Beneficial Interest, or cause or, to the fullest extent permitted by law, permit the creation, incurrence, assumption or existence of any Lien on, all or a portion of any of the Trust Beneficial Interest;

(j) become an "investment company", or come under the "control" of an "investment company," as such terms are defined in the Investment Company Act;

(k) enter into any transaction of merger or consolidation or liquidate or dissolve itself (or, to the fullest extent permitted by law, suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all the business or assets of, or any stock or other evidence of beneficial ownership of, any other Person;

(l) take any action that would cause it not to be treated as disregarded or treated as a grantor trust (assuming it were not disregarded) for United States federal income tax purposes;

(m) have any subsidiaries, employees or agents other than the Trustee and other persons necessary to conduct its activities and enter into transactions contemplated under the Program Documents;

(n) have an interest in any bank account other than (i) those accounts required under the Program Documents, and (ii) those accounts expressly permitted by the Indenture Trustee; provided that any such further accounts or the Trust's interest therein shall be charged or otherwise secured in favor of the Indenture Trustee;

(o) issue Notes under the Indenture unless (i) the Trust has purchased or will simultaneously purchase the Funding Agreement from Principal Life to secure such Notes, (ii) Principal Life has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect the granting of a security interest in, and the making of an assignment for collateral purposes of, the Funding Agreement by the Trust to the Indenture Trustee, (iii) PFG has issued the Guarantee to the Trust, which the Trust has granted a security interest and collaterally assigned to the Indenture Trustee on behalf of the Holders of Notes (and PFG has affirmed in writing to the Trust that it has made or simultaneously will make changes to its books and records to reflect such security interest), and (iv) the Trust has taken such other steps as may be necessary to cause the grant of security interest in, and assignment for collateral purposes of, the Collateral to the Indenture Trustee to be perfected for purposes of the UCC or effective against the Trust's creditors and subsequent purchasers of the Collateral pursuant to insurance or other applicable law;

(p) permit any Affiliate, employee or officer of Principal Life or PFG or any agent under the Distribution Agreement to be a trustee of the Trust;

(q) commingle the assets of the Trust with assets of any Affiliates (including any other trust organized under the Program), or guarantee any obligation of any Affiliates (including any other trust organized under the Program); or

(r) maintain any joint account with any Person, become a party, whether as co-obligor or otherwise, to any agreement to which any Person is a party (other than in respect of the Program Documents), or become liable as a guarantor or otherwise with respect to any Indebtedness or contractual obligation of any Person.

SECTION 3.16. Non-Petition. Each of the Indenture Trustee, each Holder of a Note, each Agent and the Trustee covenants and agrees that, for a period of one year plus one day after payment in full of all amounts payable under or in respect of the Indenture and the Notes, it will not institute against, or join any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any federal or state bankruptcy or similar law. The immediately preceding sentence shall survive any termination of the Indenture.

Notwithstanding the foregoing, each of the Indenture Trustee and each Agent covenants and agrees that, it will not institute against, or join any other Person in instituting against, the Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or

other proceedings under any federal or state bankruptcy or similar law, as a result of the failure to pay fees or expenses pursuant to Section 7.10 to any party entitled thereto.

Moreover, each of the Indenture Trustee, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar covenants and agrees that it will not cause an Event of Default as a result of the Trust's failure to pay any fees or expenses pursuant to Section 7.10 to any party entitled thereto.

SECTION 3.17. Title to the Collateral. The Trust covenants and agrees that the Trust owns or, prior to the issuance of the Notes will own, the Funding Agreement, the Guarantee and all of the rest of the Collateral, free and clear of any Liens other than the security interests or assignments for collateral purposes made pursuant to Article 4; and that the Trust is not and will not become a party to or otherwise be bound by any agreement, other than the Indenture, which restricts in any manner the rights of any present or future holder of any of the Collateral with respect thereto.

The Trust shall notify in writing the Indenture Trustee and any Rating Agencies as promptly as practicable upon becoming aware of any change in the law of the State of Iowa following the date of the Indenture with respect to the priority status of the Funding Agreement in a liquidation of, or other delinquency proceeding against, Principal Life.

SECTION 3.18. Withholding and Payment of Additional Amounts.

(a) All payments due in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is so required by law. Unless otherwise specified in the applicable Pricing Supplement, the Trust will not pay any Additional Amounts to Holders in respect of any such withholding or deduction and any such withholding or deduction will not give rise to a Default or an Event of Default or any independent right or obligation to redeem the Notes. Unless the Funding Agreement specifies that Principal Life will pay Additional Amounts to the Trust in the event that any amount due with respect to the Funding Agreement is subject to withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, the Trust will be deemed for all purposes of the Program Documents to have received cash in an amount equal to the amount of any such withholding or deduction, and each Holder will be deemed for all purposes of the Program Documents to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in the Notes as equitably determined by the Trust.

(b) Subject to the final sentence of this Section 3.18(b), and only to the extent specified in the applicable Pricing Supplement and supplemental indenture or Note, the Trust shall pay to a Holder of any Note who is not a "United States person" within the meaning of Section 7701(a)(30) of the Code, Additional Amounts to compensate for any withholding or

deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of such Note, by or on behalf of any governmental authority in the United States having the power to tax, so that the net amount received by the Holder under that Note, after giving effect to such withholding or deduction, will equal the amount that would have been received under such Note were no such deduction or withholding required; provided that the Trust shall not, unless otherwise specified in the applicable Pricing Supplement or a supplemental indenture, be required to make any payment of any Additional Amount for or on account of: (i) any tax, duty, levy, assessment or other governmental charge imposed which would have not been imposed but for (A) the existence of any present or former connection between the Holder or beneficial owner (as determined for United States federal income tax purposes) of the Note or the Funding Agreement (any such Holder or beneficial owner, the "Owner") and such governmental authority, including without limitation, being or having been a citizen or resident thereof, or being or having been present therein, incorporated therein, engaged in a trade or business therein or having (or having had) a permanent establishment or principal office therein, (B) such Owner being or having been a controlled foreign corporation within the meaning of Section 957(a) of the Code, related within the meaning of Section 864(d)(4) of the Code to Principal Life or a private foundation or other tax-exempt organization, (C) such Owner being or having been an actual or constructive owner of ten percent (10%) or more of the total combined voting power of all the outstanding stock of Principal Life, (D) such Owner being a bank for United States federal income tax purposes whose receipt of interest on the Note or Funding Agreement is described in Section 881(c)(3)(A) of the Code or (E) such Owner being subject to backup withholding as of the date of becoming an Owner; (ii) any tax, duty, levy, assessment or other governmental charge which would not have been imposed but for the presentation of the Note or other evidence of beneficial ownership thereof (where presentation is required) for payment on a date more than thirty (30) days after the date on which such payment becomes due and payable or the date on which payment is duly provided for whichever occurs later; except to the extent that the Owner would have been entitled to Additional Amounts had the Note been presented on the last day of such thirty (30) day period; (iii) any tax, duty, levy, assessment or other governmental charge which is imposed or withheld by reason of the failure of an Owner to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of an Owner (including, without limitation, failure to provide IRS Forms W-8BEN or W-8ECI), if compliance is required by statute, by regulation of the United States Treasury Department, judicial or administrative interpretation, other law or by an applicable income tax treaty to which the United States is a party as a condition to exemption from such tax, duty, levy, assessment or other governmental charge; (iv) any inheritance, gift, estate, personal property, sales, transfer or similar tax, duty, levy, assessment or similar governmental charge; (v) any tax, duty, levy, assessment or other governmental charge that is payable otherwise than by withholding from payments in respect of the Notes; (vi) any tax, duty, levy, assessment or other governmental charge that would not have been imposed or withheld but for the treatment of payments in respect of the Notes or the Funding Agreement as contingent interest described in Section 871(h)(4) of the Code; (vii) any tax, duty, levy, assessment or other governmental charge that would not have been imposed or withheld but for an election by the Owner the effect of which is to make payment in respect of the Notes subject to United States federal income tax; (viii) any tax, duty, levy, assessment or other governmental charge resulting from a European Union Directive; or (ix) any combination of items (i), (ii), (iii), (iv), (v), (vi), (vii) or (viii). The obligation to pay Additional Amounts under this Section 3.18

shall not apply unless Principal Life is obligated to pay additional amounts under the Funding Agreement (1) to compensate for any withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied on payments in respect of the Funding Agreement by or on behalf of any governmental authority in the United States having the power to tax and (2) to reimburse the Trust for any Additional Amounts due to Holders.

(c) If the applicable Pricing Supplement indicates that the Trust will pay any Additional Amounts to Holders as described in Section 3.18(b) and any such Additional Amounts actually become due and payable the Trust shall deliver to the Indenture Trustee a Trust Certificate that indicates the amount of such Additional Amounts and the dates of the payment of such Additional Amounts. The Indenture Trustee may conclusively rely on such Trust Certificate in making the payment of such Additional Amounts.

(d) Whenever in the Indenture or in any Note there is mentioned, in any context, the payment of the principal of or any premium or interest on, or in respect of, any Note or the net proceeds received on the sale or exchange of any Note, such mention shall be deemed to include mention of the payment of Additional Amounts if so specified in the applicable Pricing Supplement. Further, express mention of the payment of Additional Amounts (if applicable) in any provision of the Indenture or in any Note shall not be construed as excluding Additional Amounts in those provisions of the Indenture or in such Note where such express mention is not made.

#### SECTION 3.19. Additional Representations and Warranties.

(a) The Trust hereby represents and warrants that:

(i) to the extent the creation of a security interest in the Funding Agreement is governed by the UCC, the Indenture will create a valid security interest (as defined in the UCC) in the Funding Agreement in favor of the Indenture Trustee for the benefit and security of the Holders, which security interest will be prior to all other Liens;

(ii) the Indenture will create a valid security interest (as defined in the UCC) in the Guarantee in favor of the Indenture Trustee for the benefit and security of the Holders, which security interest will be prior to all other Liens;

(iii) the Funding Agreement and the Guarantee will each constitute a "general intangible" or "instrument" within the meaning of the UCC;

(iv) subject to the grant of security interest, pledge and collateral assignment of the Trust's right, title and interest in the Funding Agreement, the Trust will be a party to and will be the person entitled to payment under the Funding Agreement on the dates specified therein free and clear of any Lien, claim or encumbrance of any Person, other than the Lien created under the Indenture or any Lien otherwise permitted under the Indenture;

(v) subject to the grant of security interest, pledge and collateral assignment of the Trust's right, title and interest in the Guarantee, the Trust will be the person entitled to any payment under the Guarantee free and clear of any Lien, claim or encumbrance of any Person, other than the Lien created under the Indenture or any Lien otherwise permitted under the Indenture;

(vi) to the extent the UCC applies, the Trust has caused or will have caused, within ten (10) days of the issuance of the Notes, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Funding Agreement and the Guarantee granted to the Indenture Trustee for the benefit and security of the Holders;

(vii) other than the security interests granted to the Indenture Trustee for the benefit and security of the Holders pursuant to the Indenture, the Trust will not pledge, assign, sell, grant a security interest in, or otherwise convey any interest in the Funding Agreement or the Guarantee;

(viii) the Trust will not authorize the filing of and is not aware of any financing statements against the Trust that include a description of collateral covering the Funding Agreement or the Guarantee other than any financing statement relating to the security interests granted to the Indenture Trustee for the benefit and security of the Holders;

(ix) the Trust is not aware of any judgment or tax lien filings against the Trust; and

(x) none of the instruments that constitute or evidence the Funding Agreement or Guarantee has any marks or notations indicating that it has been pledged, assigned or otherwise conveyed to any Person other than the Indenture Trustee for the benefit and security of the Holders.

(b) The foregoing representations and warranties will survive the execution and delivery of the Notes. No party will waive any of the foregoing representations and warranties. The Indenture Trustee and the Trust will maintain the perfection and priority of the security interest in the Funding Agreement and the Guarantee.

SECTION 3.20. Ancillary Documents. The Trust hereby expressly authorizes and directs the Indenture Trustee to execute and deliver each of the documents, instruments and agreements attached as Exhibits or otherwise expressly contemplated by the terms of the Indenture with respect to the Notes from time to time.

#### ARTICLE 4 GRANTING OF SECURITY INTEREST AND ASSIGNMENT FOR COLLATERAL PURPOSES

SECTION 4.01. Creation. To secure the full and punctual payment of the Secured Obligations in accordance with the terms thereof and to secure the performance of the Trust's

obligations under the Notes and the Indenture, the Trust, with respect to the Funding Agreement and the Guarantee, hereby assigns and pledges to and with the Indenture Trustee for the ratable benefit of each Holder and, with respect to all of the Collateral, grants to the Indenture Trustee for the ratable benefit of each Holder security interests in the Collateral, and all of its rights and privileges with respect to the Collateral, and all income and profits thereon, and all interest, dividends and other payments and distributions with respect thereto, and all Proceeds of the foregoing. Contemporaneously with the issuance of the Notes, the Trust will deliver the Funding Agreement and the Guarantee to the Indenture Trustee or its agent in pledge under the Indenture and make such filings, cause Principal Life as the issuer of the Funding Agreement, and PFG as issuer of the Guarantee, to register and acknowledge the Indenture Trustee or its agent or the Holders as having the rights of an assignee for collateral purposes of the Funding Agreement and the Guarantee, respectively, and take such other action as may be necessary to cause the Indenture Trustee for the ratable benefit of each Holder to have a perfected security interest in or be the recipient of a valid assignment for collateral purposes of the Funding Agreement and the Guarantee, respectively, and the rest of the Collateral that is effective against the Trust's creditors and subsequent purchasers thereof.

#### SECTION 4.02. Scope.

(a) The security interest or assignment for collateral purposes granted or made pursuant to Section 4.01 is granted or made in trust to secure the full and punctual payment of the Secured Obligations equally and ratably among the Holders, without prejudice, priority or distinction, except as expressly provided in the Indenture, in the following order of priority:

first, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on the Notes; and

second, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

(b) The Trust does hereby constitute and irrevocably appoint the Indenture Trustee the true and lawful attorney of the Trust, with full power (in the name of the Trust or otherwise), upon the occurrence and during the continuance of an Event of Default, to exercise all rights of the Trust with respect to the Collateral and to ask, require, demand, receive, settle, compromise, compound and give acquittance for any and all monies and claims for monies due and to become due under or arising out of any of the Collateral, to endorse any checks or other instruments or orders in connection therewith and to file any claims or take any action or institute any proceedings that the Indenture Trustee may deem to be necessary or advisable in the circumstances. The power of attorney granted pursuant to the Indenture and all authority conferred by the Indenture are granted and conferred solely to protect the Indenture Trustee's interest in the Collateral held for the benefit and security of the Holders and shall not impose any duty upon the Indenture Trustee to exercise any power. This power of attorney shall be irrevocable as one coupled with an interest prior to the payment in full of all the Notes.



(c) The Indenture shall constitute a security agreement and an agreement to assign the Collateral for collateral purposes under the laws of the State of New York applicable to agreements made and to be performed therein. Upon the occurrence of any Event of Default with respect to the Notes, and in addition to any other rights available under the Indenture, the Funding Agreement and the Guarantee or otherwise available at law or in equity, the Indenture Trustee shall have all rights and remedies of a secured party or an assignee for collateral purposes on default under the laws of the State of New York and other applicable law to enforce the assignments and security interests contained in the Indenture and, in addition, shall have the right, subject to compliance with any mandatory requirements of applicable law, to sell or apply the Funding Agreement or Guarantee, exercise its rights under the Guarantee and any other rights and other interests assigned or pledged by the Indenture in accordance with the terms of the Indenture at public or private sale. All amounts received under the Indenture shall be applied first to all costs and expenses incurred by the Indenture Trustee in connection with such collection and enforcement and thereafter as provided in the Indenture.

(d) It is expressly agreed that anything in the Indenture or therein contained to the contrary notwithstanding, the Trust shall remain liable under the Funding Agreement or the Guarantee to perform all the obligations of it thereunder, all in accordance with and pursuant to the terms and provisions thereof, and the Indenture Trustee shall not have any obligations or liabilities with respect to the Funding Agreement or the Guarantee by reason of or arising out of the Indenture, nor shall the Indenture Trustee be required or obligated in any manner to perform or fulfill any obligations of the Trust under or pursuant to the Funding Agreement or the Guarantee or, other than as provided in the Indenture, to make any payment, to make any inquiry as to the nature or sufficiency of any payment received by it, or, prior to the occurrence and continuance of an Event of Default, to present or file any claim, or to take any action to collect or enforce the payment of any amounts that may have been assigned to it or to which it may be entitled at any time or times.

(e) The Trust hereby directs and instructs the Indenture Trustee to enter into a custodial arrangement with Bankers Trust Company, N.A., a national banking association, to hold the Funding Agreement and Guarantee in safe custody for the benefit of the Indenture Trustee within the State of Iowa.

(f) The Indenture Trustee acknowledges the granting of such security interests and the making of such assignments for collateral purposes, accepts the terms under the Indenture in accordance with the provisions of the Indenture and agrees to perform its duties in the Indenture subject to and with the benefit of the provisions of the Indenture, to the end that the interests of the Holders may be adequately and effectively protected.

SECTION 4.03. Termination of Security Interest. Upon the payment in full of all Secured Obligations relating to the Notes, the security interest shall terminate and all rights to the Collateral shall revert to the Trust. Upon termination of the security interest, the Indenture Trustee will execute and deliver to the Trust such documents as the Trust shall reasonably request to evidence the termination of such security interest.

ARTICLE 5  
SATISFACTION AND DISCHARGE; SUBROGATION

SECTION 5.01. Satisfaction and Discharge of Indenture. The Indenture shall cease to be of further effect with respect to the Notes (except as to any surviving rights of registration of transfer or exchange of Notes expressly provided for in the Indenture) and the Indenture Trustee, on written demand of the Trust, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture with respect to the Notes, when

(a) either:

(i) all Notes theretofore authenticated and delivered (other than Notes which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.08) have been delivered to the Indenture Trustee for cancellation; or

(ii) all Notes

(A) have become due and payable,

(B) will become due and payable at their Stated Maturity Date within one year, or

(C) are to be called for redemption within one year under arrangements satisfactory to the Indenture Trustee for the giving of notice of redemption by the Indenture Trustee in the name, and at the expense, of the Trust,

and the Trust, in the case of (A), (B) or (C) above, has deposited or caused to be deposited with the Indenture Trustee as trust funds in trust for such purpose, an amount sufficient to pay and discharge the entire indebtedness on the Notes not theretofore delivered to the Indenture Trustee for cancellation, for principal of, premium, if any, or any interest on, the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity Date, as the case may be;

(b) the Trust has paid or caused to be paid in full all other sums payable under the Indenture by the Trust with respect to the Secured Obligations; and

(c) the Trust has delivered to the Indenture Trustee a Trust Certificate and an Opinion of Counsel each stating that all conditions precedent in the Indenture providing for the satisfaction and discharge of the Indenture with respect to the Notes have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture with respect to the Notes, the obligations of the Indenture Trustee under Section 5.02 shall survive.

SECTION 5.02. Application of Trust Money. All money deposited with the Indenture Trustee pursuant to the Indenture shall be held in trust in the Collection Account and applied by

it, in accordance with the provisions of the Notes and the Indenture, to the payment through any Paying Agent, to the Persons entitled thereto, of the principal, premium, if any, interest and Additional Amounts, if any, for whose payment such money has been deposited with or received by the Indenture Trustee.

If no Event of Default with respect to the Notes exists, the following priority of payments shall apply:

first, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which or for the benefit of which such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on the Notes; and

second, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

## ARTICLE 6 DEFAULTS AND REMEDIES

### SECTION 6.01. Events of Default.

"EVENT OF DEFAULT" means any one of the following events with respect to the Notes (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) failure to pay the principal (other than any installment payment), when due and payable, of any Note and the continuance of such failure for a period of one (1) Business Day;

(b) failure to pay any interest, premium (if applicable), installment payments (if applicable) or any other amounts, when due and payable, on any Note and a continuance of such failure for a period of seven (7) Business Days;

(c) an "Event of Default" (as defined in the Funding Agreement) by Principal Life under the Funding Agreement securing the Notes;

(d) failure to observe or perform in any material respect any one or more of the other covenants in the Indenture (other than a covenant or default or breach of which is specifically set forth in Section 6.01(a), (b) and, if applicable (h)) or the Notes, and continuance of such failure for a period of sixty (60) days after the date on which there shall have been given written notice by registered or certified mail, return receipt requested, specifying such failure, thereof to the Trust by the Indenture Trustee or to the Trust and the Indenture Trustee by Holders of Notes representing at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Notes, which written notice shall be delivered by registered or certified mail, return

receipt requested, and shall specify such failure and require such failure to be remedied and which notice shall state that it is a "NOTICE OF DEFAULT" under the Indenture;

(e) the Indenture for any reason shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared null and void, or the Indenture Trustee fails to have or maintain a validly created and perfected security interest subject to no prior Liens or security interests in the Collateral and proceeds thereof except as expressly permitted by the Indenture; or any Person shall successfully claim as finally determined by a court of competent jurisdiction that any of the Liens granted to the Indenture Trustee with respect to any of the Collateral are void or that the enforcement thereof or any other recourse by the Indenture Trustee against any of the Collateral is materially limited because of any preference, fraudulent transfer, conveyance or similar law;

(f) either (i) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Trust or the Collateral in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect in the applicable jurisdiction, which decree or order is not stayed; or any other similar relief shall be granted under any applicable law; or (ii) an involuntary case shall be commenced against the Trust or the Collateral under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Trust or the Collateral, or over all or a substantial part of its property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the Trust or the Collateral for all or a substantial part of its property; or a court having jurisdiction in the premises shall enter a decree or order declaring the dissolution of the Trust; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of the Trust and any such event described in this clause (ii) shall continue for sixty (60) days unless dismissed, bonded or discharged;

(g) either (i) the Trust shall have an order for relief entered with respect to it or shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law of the applicable jurisdiction, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Trust shall make any assignment for the benefit of creditors; or (ii) the Trust shall fail or be unable, or the Trust admits in writing its inability, to pay its debts as such debts become due; or the trustee of the Trust shall adopt any resolution or otherwise authorize any action to approve or for the purpose of effecting any of the actions referred to in this paragraph (g); or

(h) any other Event of Default provided in (i) the applicable Pricing Supplement and (ii) the Notes or any supplemental indenture.

Notwithstanding anything contained herein to the contrary, any event of default or other breach by PFG under the Guarantee will not be an Event of Default hereunder with respect to the Notes.

SECTION 6.02. Acceleration of Maturity Date; Rescission and Annulment. If an Event of Default specified in any of Sections 6.01(a), (b), (c), (f) or (g) occurs and is continuing, the principal of and all accrued and unpaid interest and any other amounts payable on the Notes or if such Notes are non-interest bearing, the amortized face amount of such Notes or other redemption amount as may be specified in the Pricing Supplement, shall automatically be and become due and payable immediately, without any declaration or other act whatsoever on the part of the Trust, the Indenture Trustee or any Holder. If any Event of Default other than those specified in Sections 6.01(a), (b), (c), (f) or (g) occurs and is continuing, then in every such case the Indenture Trustee or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Outstanding Notes, by a notice in writing to the Trust (and to the Indenture Trustee if given by the Holders of the Notes), may (but are not required to) declare the sum of (a) the principal amount of all the Outstanding Notes and (b) any other amounts, including accrued and unpaid interest, payable to the Holders to the extent such amounts are permitted by law to be paid, to be due and payable immediately, and upon any such declaration such amount shall become due and payable on the date the written declaration is received by the Trust; provided, however, that with respect to any Note issued with original issue discount the amount of principal due and payable for such Note will be the amount determined as set forth in the Pricing Supplement or, if not so set forth, by multiplying (i) the then outstanding aggregate principal amount of such Note by (ii) the sum of (A) the original issue price of the Note (expressed as a percentage of the then outstanding aggregate principal amount of such Note) plus (B) the original issue discount (expressed as a percentage) amortized from the original issue date of such Note to the date of declaration of acceleration of maturity of such Note (calculated using the interest method in accordance with generally accepted accounting principles in effect on the date of determination).

At any time after such a declaration of acceleration of maturity of the Notes has been made pursuant to the second sentence of this Section 6.02 and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as provided in this Article, the Holders of Notes representing at least sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of the Outstanding Notes, by written notice to the Trust and the Indenture Trustee, may rescind and annul such declaration and its consequences if

(a) the Trust has paid or deposited with the Indenture Trustee a sum sufficient to pay:

(i) all overdue installments of interest and Additional Amounts, if applicable, on all Notes,

(ii) the principal and premium, if any, of any Notes which have become due otherwise than by such declaration of acceleration and interest thereon with respect thereto at the rate borne by the Notes, and

(iii) all sums paid or advanced by the Indenture Trustee under the Indenture; and

(b) all Events of Default, other than the nonpayment of the principal of or interest on the Notes which have become due solely as a result of such acceleration, have been cured or waived as provided in Section 6.13.

No such rescission shall affect any subsequent Default or Event of Default or impair any right consequent thereon.

SECTION 6.03. Collection of Indebtedness and Suits for Enforcement. The Trust covenants that if:

(a) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable (after the expiration of any applicable cure period), or

(b) default is made in the payment of the principal or premium, if any, of any Note when such principal or premium, if any, becomes due and payable,

the Trust will upon demand of the Indenture Trustee (which the Indenture Trustee may make, but is not required to make) pay to the Indenture Trustee, for the benefit of all the Holders of the Notes, the whole amount then due and payable on the Notes (together, as applicable, with interest upon the overdue principal and any premium and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest at the rate borne by the Notes or, if the Notes are non-interest bearing, the rate for such interest set forth in the Notes or the Indenture, if applicable) and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel.

If the Trust fails to pay such amounts it is required to pay the Indenture Trustee pursuant to the preceding paragraph, then forthwith upon the demand of the Indenture Trustee, in its own name and as trustee of an express trust, the Indenture Trustee may (but is not required to) institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Trust or any other obligor upon any of the Notes and collect the monies adjudged or decreed to be payable in the manner provided by law out of the property of the Trust or any other obligor upon the Notes, including the Collateral, wherever situated.

If an Event of Default with respect to the Notes occurs and is continuing, the Indenture Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes by such appropriate judicial proceedings as the Indenture Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Indenture or in aid of the exercise of any power granted in the Indenture, or to enforce any other proper remedy.

SECTION 6.04. Indenture Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, composition or other judicial proceeding relative to the Trust or any other obligor upon the Notes or the property held in the Trust or of such other obligor or their creditors, the Indenture Trustee (irrespective of whether the Notes shall then be due and payable as therein expressed or by

declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand on the Trust for the payment of any overdue principal, premium or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal of, and any premium and interest owing and unpaid in respect of, the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel) and of the Holders allowed in such proceeding; and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same, and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Indenture Trustee and, in the event that the Indenture Trustee shall consent, to make such payments directly to the Holders, and to pay to the Indenture Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, and any other amounts due to the Indenture Trustee under Section 7.10.

Nothing contained in the Indenture shall be deemed to authorize the Indenture Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting any of the Notes or the rights of any Holder thereof, or to authorize the Indenture Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.05. Indenture Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under the Indenture or any of the Notes may be prosecuted and enforced by the Indenture Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Indenture Trustee in accordance with the terms of the Indenture shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee, its agents and counsel, be for the ratable benefit of the Holders of Notes in respect of which such judgment has been recovered.

SECTION 6.06. Application of Money Collected. Notwithstanding anything in the Indenture to the contrary, any money collected by the Indenture Trustee following an Event of Default and during the continuance thereof pursuant to Article 6 or otherwise under the Indenture or, any supplements to the Indenture, and any moneys that may then be held or thereafter received by the Indenture Trustee as security with respect to the Notes shall be held in the Collection Account and be applied in the following order, at the date or dates fixed by the Indenture Trustee and, in case of the distribution on account of principal or interest, upon presentation of the Notes, or both, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

first, to the payment of the reasonable and customary expenses and counsel fees incurred by the Indenture Trustee and any other amounts due and

unpaid to the Indenture Trustee by the Trust, in an aggregate amount of no more than \$250,000 for all notes issued under the Program, to the extent not paid pursuant to the applicable Expense and Indemnity Agreement;

second, to the payment of the amounts then due and unpaid upon the Notes for principal and interest and all other amounts in respect of which, or for the benefit of which, such amount has been collected, ratably, without preference or priority of any kind, according to the aggregate principal amounts due and payable on the Notes; and

third, any remaining balance shall be paid to the Trust and such remaining balance shall be distributed by the Trustee in accordance with the Trust Agreement.

Except as expressly set forth in the Indenture, none of the Indenture Trustee, Paying Agent, Registrar or any other Agent or any of their successors, employees, officers, directors, affiliates or agents shall have any claim or rights of any nature in or to the Collateral, whether as a result of set-off, banker's lien or otherwise, and the Indenture Trustee hereby waives, and the Paying Agent and Registrar appointed under the Indenture shall be deemed to have waived, by its acceptance of the duties under the Indenture, on behalf of itself and each such other Person, any such claim or rights in or to the Collateral.

SECTION 6.07. Limitation on Suits. Except as otherwise provided in Section 6.08, no Holder shall have any right to institute any proceedings, judicial or otherwise, with respect to the Indenture or any agreement or instrument included in the Collateral for the Notes or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder has previously given written notice to the Indenture Trustee of a continuing Event of Default with respect to the Notes;

(b) the Holder or Holders of Notes representing not less than twenty-five percent (25%) of the aggregate principal amount of the Outstanding Notes shall have made written request to the Indenture Trustee to institute proceedings in respect of such Event of Default in its own name as Indenture Trustee under the Indenture;

(c) such Holder or Holders have offered to the Indenture Trustee reasonable indemnity or security satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Indenture Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Indenture Trustee during such sixty (60) day period by the Holder or Holders of Notes representing at least 66 2/3% in aggregate principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect,



disturb or prejudice the rights of any other Holder of any Note or to obtain or to seek to obtain priority or preference over any other Holder of any Note or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Holders of the Notes.

**SECTION 6.08. Unconditional Rights of Holders to Receive Payments.**

Notwithstanding any other provision in the Indenture, each Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of, any interest on, and premium, if any, on such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

**SECTION 6.09. Restoration of Rights and Remedies.** If the Indenture Trustee or any Holder has instituted any proceeding to enforce any right or remedy under the Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Indenture Trustee or to such Holder, then and in every such case the Trust, the Indenture Trustee and each such Holder shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions under the Indenture, and thereafter all rights and remedies of the Indenture Trustee and each such Holder shall continue as though no such proceeding had been instituted.

**SECTION 6.10. Rights and Remedies Cumulative.** Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in Section 2.08, no right or remedy in the Indenture conferred upon or reserved to the Indenture Trustee or to each and every Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy under the Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**SECTION 6.11. Delay or Omission Not Waiver.** No delay or omission of the Indenture Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such right or remedy accruing upon any Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Indenture Trustee or to any Holder may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by such Holder, as the case may be.

**SECTION 6.12. Control by Holders.** Holders, representing a majority of the aggregate principal amount of the Outstanding Notes, who provide the Indenture Trustee with indemnification satisfactory to the Indenture Trustee, shall have the right to direct the time, method and place of conducting any proceedings for exercising any remedy available to the Indenture Trustee or exercising any trust or power conferred on the Indenture Trustee with respect to the Notes, including with respect to the Collateral; provided, however, that (a) such direction shall not be in conflict with any rule of law or with the Indenture and (b) the Indenture

Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction.

SECTION 6.13. Waiver of Past Defaults. Notwithstanding anything in the Indenture to the contrary, only Holders representing a majority of the aggregate principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past Default with respect thereto and its consequences, except a Default:

(a) in the payment of any principal of, any interest on, or premium, if any, on any Note, or

(b) in respect of a covenant or provision of the Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Note.

Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of the Indenture with respect to the Notes; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 6.14. Undertaking for Costs. All parties to the Indenture agree, and each Holder, by acceptance of a Note, shall be deemed to have agreed that, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, any court may in its discretion require the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Indenture Trustee or any Agent, to any suit instituted by any Holder, or group of Holders, holding in the aggregate Notes representing more than ten percent (10%) of the aggregate principal amount of the Outstanding Notes, or to any suit instituted by any Holder for the enforcement of the payment of any installment of interest on any Note on or after the Stated Maturity Date thereof expressed in such Note or for the enforcement of the payment of any principal of such Note at the Stated Maturity Date therefor.

SECTION 6.15. Waiver of Stay or Extension Laws. The Trust covenants that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any law wherever enacted, now or at any time hereafter in force, providing for any appraisalment, valuation, stay, extension or redemption, which may affect the covenants in, or the performance of, the Indenture; and the Trust hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power granted in the Indenture to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 7  
THE INDENTURE TRUSTEE AND OTHER AGENTS

SECTION 7.01. Duties of Indenture Trustee.

(a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default, the duties and liabilities of the Indenture Trustee are to perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations of the Indenture Trustee shall be read into the Indenture.

(c) No provision of the Indenture shall be construed to relieve the Indenture Trustee or any Agent from liability for its own negligent action, its own negligent failure to act, or its own bad faith or willful misconduct, except that:

(i) this subsection does not limit the effect of subsection (b) of this Section 7.01;

(ii) each of the Indenture Trustee and each Agent may in good faith conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to it and conforming to the requirements of the Indenture unless a Responsible Officer of the Indenture Trustee or such Agent, respectively, has actual knowledge that such statements or opinions are false; provided that the Indenture Trustee or Agent, as the case may be, must examine such certificates and opinions to determine whether they conform to the requirements of the Indenture;

(iii) each of the Indenture Trustee and each Agent shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Indenture Trustee or Agent, as the case may be, was negligent in ascertaining the pertinent facts;

(iv) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with the direction of Holders representing a majority of the aggregate principal amount of the Outstanding Notes or pursuant to Section 6.07 for actions or omissions relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred upon the Indenture Trustee, under the Indenture with respect to the Notes; and

(v) no provision of the Indenture shall require the Indenture Trustee or any Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for

believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 7.01.

(e) The Indenture Trustee shall promptly upon its receipt thereof deliver to each Rating Agency copies of each of the following:

(i) any notice of any Event of Default by any party under the Funding Agreement delivered by the Trust to the Indenture Trustee pursuant to paragraph (b) of Section 3.13;

(ii) any amendment or modification of the Trust Agreement delivered by the Trust to the Indenture Trustee pursuant to paragraph (a) of Section 3.12;

(iii) any notice of any Default or Event of Default, together with any relevant Trust Certificate relating thereto, delivered by the Trust to the Indenture Trustee pursuant to paragraph (b) of Section 3.13;

(iv) any supplemental indenture referred to in Section 8.01 or 8.02;

(v) any other information reasonably requested by any Rating Agency;

(vi) any notice of change in the identity of the Trust;

(vii) any notice of change in the identity of the Indenture Trustee;

(viii) any notice of adverse change in the priority status of the Funding Agreement as a matter of the laws of the State of Iowa; and

(ix) any notice of redemption delivered to the Indenture Trustee under Section 2.04.

(f) The Indenture Trustee shall, on behalf of the Trust, and to the extent that the relevant information shall be reasonably available to it, submit such reports or information as may be required from time to time in relation to the issue of the Notes by applicable law, regulations and guidelines by governmental regulatory authorities as may be subsequently requested by the Trust and agreed to in writing between the Trust and the Indenture Trustee.

SECTION 7.02. No Liability to Invest. None of the Agents shall be under any liability for interest on, or have any responsibility to invest, any monies received by it pursuant to any of the provisions of the Indenture or the Notes.

SECTION 7.03. Performance Upon Default. None of the Agents shall have any duty or responsibility in case of any default by the Trust in the performance of its obligations (including, without limiting the generality of the foregoing, any duty or responsibility to accelerate all or any of the Notes or to initiate or to attempt to initiate any proceedings at law or otherwise or to make any demand for the payment thereof upon the Trust).

SECTION 7.04. No Assumption by Paying Agent, Transfer Agent, Calculation Agent or Registrar. In acting under the Indenture and in connection with the Notes, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar shall act solely as agents of the Trust and will not thereby assume any obligations towards, or relationship of agency or trust for, any of the Holders.

SECTION 7.05. Notice of Default. Within ninety (90) days after a Responsible Officer of the Indenture Trustee becomes aware of the occurrence of any Default or Event of Default which is continuing, the Indenture Trustee shall transmit to the Trustee, PFG and Principal Life and all Holders of Notes notice of each such Default or Event of Default known to the Indenture Trustee, unless such Default or Event of Default shall have been cured or waived; provided, however, that, except in the case of a Default of the kind described in Section 6.01(a), (b), (c), (f) or (g) the Indenture Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Indenture Trustee in good faith determine that the withholding of such notice is in the interests of the Holders.

SECTION 7.06. Rights of Indenture Trustee. Subject to the provisions of Section 7.01(c):

(a) The Indenture Trustee may conclusively rely on any document believed by it in good faith to be genuine and to have been signed or presented by the proper Person. The Indenture Trustee need not investigate any fact or matter stated in the document.

(b) Before the Indenture Trustee acts or refrains from acting, including in connection with the issuance of the Notes pursuant to Section 2.02, it may require a Trust Certificate or an Opinion of Counsel (or may consult with financial or other advisors or consultants appointed with due care). The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on any Trust Order, Trust Request, Trust Certificate, Opinion of Counsel or advice from financial or other advisors or consultants appointed with due care.

(c) The Indenture Trustee may act through agents or attorneys and shall not be responsible for monitoring or supervising the actions of, or for the misconduct or negligence of, any agent or attorney appointed with due care.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers.

(e) (i) The Indenture Trustee may employ or retain such counsel, accountants, appraisers, agents or other experts or advisers as it may reasonably require for the

purpose of determining and discharging its rights and duties under the Indenture and shall not be responsible for misconduct on the part of any such person appointed with due care.

(ii) The Indenture Trustee may conclusively act and rely and shall be protected in acting and relying in good faith on the opinion or advice of or information obtained from any counsel, accountant, appraiser, agents or other expert or adviser, whether retained or employed by the Trust or by the Indenture Trustee, in relation to any matter arising in the administration of the trusts of the Indenture.

(f) The Indenture Trustee may consult with counsel of its selection and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it under the Indenture in good faith and in reliance thereon.

(g) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders pursuant to the Indenture, unless such Holders shall have offered to the Indenture Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(h) The Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Indenture Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Indenture Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Trust, personally or by agent or attorney, with any reasonable costs related thereto to be paid by Principal Life pursuant to the applicable Expense and Indemnity Agreement, and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(i) The Indenture Trustee shall not be deemed to have notice of any Default or Event of Default unless a Responsible Officer of the Indenture Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by a Responsible Officer of the Indenture Trustee at the Corporate Trust Office of the Indenture Trustee, and such notice references the Notes and the Indenture and states that a Default or Event of Default has occurred.

(j) Permissive powers granted to the Indenture Trustee under the Indenture shall not be construed to be mandatory duties on its part.

(k) The rights and protections afforded to the Indenture Trustee pursuant to this Article 7 shall also be afforded to the Paying Agent, Calculation Agent, Registrar or Transfer Agent, or any successor or agent thereof.

(l) The Indenture Trustee shall have no liability for the actions or omissions of the Paying Agent, Registrar, Calculation Agent or Transfer Agent, provided that such action

or omission is not caused by the Indenture Trustee's own negligence, bad faith or willful misconduct.

(m) The Indenture Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through delegates, agents, attorneys, custodians, or nominees, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part, or the supervision, of any agent, attorney, custodian, or nominee appointed with due care under the Indenture except as otherwise agreed in writing with the Trust.

(n) The Indenture Trustee may request that the Trust deliver an officer's certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to the Indenture, which officer's certificate may be signed by any person authorized to sign an officer's certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.07. Not Responsible for Recitals or Issuance of Notes. The recitals contained in the Indenture and in the Notes, except the certificates of authentication on the Notes, shall be taken as the statements of the Trust and neither the Indenture Trustee nor any Agent assumes any responsibility for their correctness. Neither the Indenture Trustee nor any Agent makes any representations with respect to any Collateral or as to the validity, enforceability or sufficiency of the Indenture or of the Notes or of any security interest created under the Indenture. Neither the Indenture Trustee nor any Agent shall be accountable for the use or application by the Trust of the Notes or the proceeds thereof or any money paid to the Trust or upon Trust Order pursuant to the provisions of the Indenture.

SECTION 7.08. Indenture Trustee May Hold Notes. The Indenture Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Section 7.11 and Section 311(a) of the Trust Indenture Act, may otherwise deal with the Trust with the same rights it would have if it were not Indenture Trustee.

SECTION 7.09. Money Held in Trust. Money held by the Indenture Trustee in trust under the Indenture need not be segregated from other funds except to the extent required by the Indenture or by law. The Indenture Trustee shall be under no liability for interest on any money received by it under the Indenture and shall not invest such money, unless otherwise agreed to in writing and permitted by law.

SECTION 7.10. Compensation and Reimbursement. The Indenture Trustee and the Agents will be entitled to payment of fees, reimbursement for, and indemnification with respect to, costs and expenses for services rendered under the Indenture to the extent provided in the applicable Expense and Indemnity Agreement and, with respect to only the Indenture Trustee, Section 6.06. Except as provided in Section 6.06 with respect to the Indenture Trustee, none of the Indenture Trustee, Paying Agent, Registrar or Transfer Agent shall be entitled to seek any payment from the Trust with respect to its services under the Indenture.

SECTION 7.11. Eligibility. The Trust agrees, for the benefit of the Holders, that there shall at all times be an Indenture Trustee under the Indenture which shall be a corporation or

national banking association organized and doing business under the laws of the United States, any state thereof or the District of Columbia, authorized under such law to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 subject to supervision or examination by federal or state authority and having a credit rating of BBB- or better by Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies or a credit rating of Baa3 or better by Moody's Investors Service, Inc. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 7.11, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition as published. If at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in this Article.

In addition, the Indenture Trustee, each successor Indenture Trustee and each Person appointed to act as co-trustee pursuant to Section 7.15 must be a "United States person" within the meaning of Section 7701(a)(30) of the Code.

#### SECTION 7.12. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Indenture Trustee and no appointment of a successor Indenture Trustee pursuant to this Section shall become effective until the acceptance of appointment by the successor Indenture Trustee under Section 7.13.

(b) The Indenture Trustee may resign at any time by giving not less than sixty (60) days' prior written notice thereof to the Trust and the Holders of the Notes. If an instrument of acceptance by a successor Indenture Trustee shall not have been delivered to the Indenture Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Indenture Trustee may petition any court of competent jurisdiction at the expense of the Trust for the appointment of a successor Indenture Trustee and any and all amounts then due and owing to the retiring Indenture Trustee shall be paid in full.

(c) The Indenture Trustee may be removed at any time by an Act of Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes, delivered to the Indenture Trustee and to the Trust. If an instrument of acceptance by a successor Indenture Trustee shall not have been delivered to the Indenture Trustee within thirty (30) days after the giving of such notice of removal, the Indenture Trustee being removed may petition, at the expense of the Trust, any court of competent jurisdiction for the appointment of a successor Indenture Trustee with respect to the Notes.

(d) If at any time (i) the Indenture Trustee shall cease to be eligible under Section 7.11 and shall fail to resign after written request by the Trust or any Holder (who has been a bona fide Holder of a Note for at least six months), (ii) shall become incapable of acting or shall be adjudged as bankrupt or insolvent, or a receiver or liquidator of the Indenture Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Indenture Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation or (iii) the Indenture Trustee shall fail to comply with the obligations imposed upon it under Section 310(b) of the Trust Indenture Act with respect to the Notes after written request



therefor by the Trust or any Holder who has been a bona fide Holder of a Note for at least six months, then, (x) the Trust (except during the existence of an Event of Default) by a Trust Order may remove the Indenture Trustee, or (y) subject to Section 6.14, any Holder who has been a bona fide Holder for at least six months may, on behalf of himself, herself or itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

(e) If the Indenture Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Indenture Trustee for any reason, the Trust, by a Trust Order, shall promptly appoint a successor Indenture Trustee and shall comply with the applicable requirements of Section 7.13. If, within one year after such resignation, removal or incapability or the occurrence of such vacancy, a successor Indenture Trustee shall be appointed by Act of Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes delivered to the Trust and the retiring Indenture Trustee, the successor Trustee so appointed shall, upon its acceptance of such appointment in accordance with the applicable requirements of Section 7.13, become the successor Indenture Trustee and supersede the successor Indenture Trustee appointed by the Trust. If no successor Indenture Trustee shall have been so appointed by the Trust or Holders and shall have accepted appointment in the manner provided in the Indenture, any Holder who has been a Holder for at least six months may (subject to Section 6.14), on behalf of himself, herself or itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(f) The Trust shall give notice of each resignation and each removal of the Indenture Trustee and each appointment of a successor Indenture Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of the Notes, if any, as their names and addresses appear in the Register. Each notice shall include the name of the successor Indenture Trustee and the address of its Corporate Trust Office.

(g) Any successor Indenture Trustee shall satisfy all applicable requirements under the Indenture.

#### SECTION 7.13. Acceptance of Appointment by Successor.

(a) Every successor Indenture Trustee appointed under the Indenture shall execute, acknowledge and deliver to the Trust and the retiring Indenture Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Indenture Trustee shall become effective and such successor Indenture Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Indenture Trustee. Notwithstanding the foregoing, on request of the Trust or the successor Indenture Trustee, such retiring Indenture Trustee shall, upon payment of all amounts owed to it, execute and deliver an instrument transferring to such successor Indenture Trustee all the rights, powers and trusts of the retiring Indenture Trustee, and shall duly assign, transfer and deliver to such successor Indenture Trustee all property and money held by such retiring Indenture Trustee under the Indenture.

(b) Upon request of any such successor Indenture Trustee, the Trust shall execute any and all instruments for more fully and certainly vesting in and confirming to such

successor Indenture Trustee all such rights, powers and trusts referred to in this Section, as the case may be.

(c) No successor Indenture Trustee shall accept its appointment unless at the time of such acceptance such successor Indenture Trustee shall be qualified and eligible under this Article.

SECTION 7.14. Merger, Conversion, Consolidation or Succession to Business of Indenture Trustee. Any corporation or national banking association into which the Indenture Trustee may be merged or converted or with which it may be consolidated, or any corporation or national banking association resulting from any merger, conversion or consolidation to which the Indenture Trustee shall be a party, or any corporation or national banking association succeeding to all or substantially all of the corporate trust business of the Indenture Trustee, shall be the successor of the Indenture Trustee under the Indenture, without the execution or filing of any paper or any further act on the part of any of the parties to the Indenture; provided, however, that such corporation or national banking association shall be otherwise qualified and eligible under this Article. In case any Notes have been authenticated, but not delivered, by the Indenture Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Indenture Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Indenture Trustee had authenticated such Notes.

SECTION 7.15. Co-trustees.

(a) At any time or times, for the purpose of meeting the legal or regulatory requirements of any jurisdiction in which any portion of any Collateral may at the time be located, the Trust and the Indenture Trustee shall have power to appoint, and, upon the written request of the Holders of Notes representing a majority of the aggregate principal amount of the Outstanding Notes, the Trust shall for such purpose join with the Indenture Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint one or more Persons approved by the Indenture Trustee to act as co-trustee, jointly with the Indenture Trustee, of all or any part of the Collateral, with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Trust does not join in such appointment within fifteen (15) days after the receipt by it of a request so to do, or in case an Event of Default has occurred and is continuing, the Indenture Trustee alone shall have power to make such appointment.

(b) Should any written instrument from the Trust be required by any co-trustee so appointed for more fully confirming to such co-trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Trust.

(c) Every co-trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms:

(i) the Notes shall be authenticated and delivered and all rights, powers, duties and obligations under the Indenture in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Indenture Trustee under the Indenture, shall be exercised solely by the Indenture Trustee;

(ii) the rights, powers, duties and obligations conferred by the Indenture or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee or by the Indenture Trustee and such co-trustee jointly, as shall be provided in the instrument appointing such co-trustee, except to the extent that, under any law of any jurisdiction in which any particular act is to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee;

(iii) the Indenture Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Trust evidenced by a Trust Request, may accept the resignation of or remove any co-trustee appointed under this Section, and, in case an Event of Default has occurred and is continuing, the Indenture Trustee shall have power to accept the resignation of, or remove, any such co-trustee without the concurrence of the Trust. Upon the written request of the Indenture Trustee, the Trust shall join with the Indenture Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee so resigned or removed may be appointed in the manner provided in this Section;

(iv) no co-trustee under the Indenture shall be personally liable by reason of any act or omission of the Indenture Trustee or any other such trustee under the Indenture and the Indenture Trustee shall not be personally liable by reason of any act or omission of any co-trustee under the Indenture; and

(v) any Act of Holders delivered to the Indenture Trustee shall be deemed to have been delivered to each such co-trustee.

#### SECTION 7.16. Appointment and Duties of the Calculation Agent.

(a) Unless the Paying Agent advises the Trust that it is unable to act as Calculation Agent, the Trust appoints the Paying Agent at its specified office as Calculation Agent in relation to the Notes in respect of which it is named as such in the relevant Pricing Supplement for the purposes specified in the Indenture and all matters incidental thereto.

(b) The Paying Agent accepts its appointment as Calculation Agent in relation to the Notes in respect of which it is named as such in the relevant Pricing Supplement and shall perform all matters expressly to be performed by it in, and otherwise comply with, the terms and conditions of the Notes and the provisions of the Indenture and, in connection therewith, shall take all such action as may be incidental thereto. The Paying Agent acknowledges and agrees

that it shall be named in the relevant Pricing Supplement as Calculation Agent in respect of the Notes unless the Relevant Agents (or one of the Relevant Agents) through whom the Notes are issued has agreed with the Trust to act as Calculation Agent (in which case such Relevant Agent or Agents shall be named as Calculation Agent in the related Pricing Supplement). If the Calculation Agent is incapable or unwilling to perform its duties under the Indenture, the Indenture Trustee will appoint the Paying Agent or another leading commercial bank to serve as Calculation Agent. Any resignation by or termination of a Calculation Agent shall not be effective until a successor Calculation Agent has been appointed.

(c) The Calculation Agent shall:

(i) obtain such quotes and rates and/or make such determinations, calculations and adjustments as may be required under the Notes and provide notice of any applicable interest rate calculations or determinations or periods with respect to the Notes to the Holders of the Notes upon their request and to the Indenture Trustee, Paying Agent, the Trust, Principal Life and PFG, and if the Notes are listed on a stock exchange, and the rules of such exchange so require, such exchange as soon as possible after the Calculation Agent's determination or calculation of such interest rates or interest rate periods, but in no event later than the fourth (4th) Banking Day thereafter or, earlier in the case of notification to a stock exchange, if the rules of such exchange so require; and

(ii) maintain a record of all quotations obtained by it and of all amounts, rates and other items determined or calculated by it and make such record available for inspection at all reasonable times by the Trust, the Indenture Trustee, Principal Life, PFG and the Paying Agent.

(d) The Calculation Agent shall have no liability to the Holders of Notes in respect of any determination, calculation, quote or rate made or provided by the Calculation Agent.

#### SECTION 7.17. Changes in Agents.

(a) Any Agent may resign its appointment under the Indenture upon the expiration of not less than thirty (30) days' notice to that effect to the Trust (with a copy to the Indenture Trustee); provided, however, that any such notice which would otherwise expire within thirty (30) days before or after the Maturity Date or any interest or other payment date of the Notes shall be deemed to expire on the thirtieth (30th) day following the Maturity Date or, as the case may be, such interest or other payment date.

(b) The Trust may revoke its appointment of any Agent under the Indenture by giving not less than thirty (30) days' notice to the applicable Agent and the Indenture Trustee to that effect.

(c) The appointment of any Agent under the Indenture shall terminate forthwith if any of the following events or circumstances shall occur or arise, namely, such Agent becomes incapable of acting; is adjudged bankrupt or insolvent; files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the

appointment of a receiver, administrator or other similar official of all or any substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof; a resolution is passed or an order is made for the winding-up or dissolution of such Agent; a receiver, administrator or other similar official of such Agent or of all or any substantial part of its property is appointed; an order of any court is entered approving any petition filed by or against such Agent under the provisions of any applicable bankruptcy or insolvency law; or any public officer takes charge or control of such Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation.

(d) The Trust may (and shall where necessary to comply with the terms and conditions of the Notes) appoint substitute or additional agents in relation to the Notes and shall forthwith notify the other parties to the Indenture, whereupon the parties to the Indenture and such substitute or additional agents shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture.

(e) If any Agent gives notice of its resignation in accordance with this Section 7.17, the provisions of paragraph (d) of Section 7.17 apply and by the tenth (10th) day before the expiration of such notice a successor to such Agent in relation to such Notes has not been appointed by the Trust, such Agent may itself, following such consultation with the Trust as may be practicable in the circumstances, appoint as its successor any reputable and experienced bank or financial institution (which will ensure compliance with the terms and conditions of the Notes) and give notice of such appointment in accordance with the terms and conditions of the Notes, whereupon the parties to the Indenture and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture.

(f) Upon any resignation or revocation becoming effective under this Section, the relevant Agent shall:

(i) be released and discharged from its obligations under the Indenture;

(ii) repay, in accordance with the applicable Expense and Indemnity Agreement, to Principal Life such part of any fee paid to it as may be agreed between the relevant Agent and Principal Life;

(iii) in the case of the Paying Agent, deliver to the Trust and to the successor Paying Agent a copy, certified as true and up-to-date by an officer of the Paying Agent, of the records maintained by it in accordance with Section 3.04;

(iv) in the case of the Registrar, deliver to the Trust and to the successor Registrar a copy, certified as true and up-to-date by an officer of such Registrar, of each of the Registers and other records maintained by it in accordance with Section 2.06;

(v) in the case of a Calculation Agent, deliver to the Trust and to the successor Calculation Agent a copy, certified as true and up-to-date by an officer of such Calculation Agent of the records maintained by it in accordance with Section 7.16; and

(vi) upon payment to it by Principal Life of all amounts owed to it, forthwith transfer all moneys and papers (including any unissued Global Notes or Definitive Notes) held by it under the Indenture to its successor in that capacity and, upon appropriate notice, provide reasonable assistance to such successor for the discharge by it of its duties and responsibilities under the Indenture.

(g) Any corporation into which any Agent may be merged or converted, any corporation with which any Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which any Agent shall be a party or any corporation succeeding to all or substantially all the corporate agency business of such Agent, shall, to the extent permitted by applicable law, be the successor to such Agent under the Indenture and in relation to the Notes without any further formality, whereupon the parties to the Indenture and such successor agent shall thereafter have the same rights and obligations among them as would have been the case had they then entered into an agreement in the form mutatis mutandis of the Indenture. Notice of any such merger, conversion, consolidation or asset transfer shall forthwith be given by such successor to the Trust and the other parties to the Indenture.

(h) If any Agent decides to change its specified office (which may only be effected within the same city) it shall give notice to the Trust (with a copy to the Indenture Trustee) of the address of the new specified office stating the date on which such change is to take effect, which date shall be not less than thirty (30) days after the date of such notice. The relevant Agent shall at its own expense not less than fourteen (14) days prior to the date on which such change is to take effect (unless the appointment of the relevant Agent is to terminate pursuant to any of the foregoing provisions of this Section on or prior to the date of such change) publish or cause to be published notice thereof.

Upon the execution of the Indenture and thereafter forthwith upon any change of the same, the Trust shall deliver to the Indenture Trustee (with a copy to the Paying Agent) a list of the Authorized Signatories of the Trust together with certified specimen signatures of the same.

SECTION 7.18. Limitation of Trustee Liability. It is expressly understood and agreed by the parties that (a) the Indenture is executed and delivered by U.S. Bank Trust National Association, not individually or personally, but solely as trustee of the Trust, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, undertakings and agreements in the Indenture made on the part of the Trust is made and intended not as personal representations, undertakings and agreements by U.S. Bank Trust National Association, but is made and intended for the purpose of binding only the Trust, (c) nothing contained in the Indenture shall be construed as creating any liability on the part of U.S. Bank Trust National Association, individually or personally, to perform any covenant either expressed or implied contained in the Indenture, all such liability, if any, being expressly waived by the parties to the Indenture and by any person claiming by, through or under the parties to the Indenture, and (d) under no circumstances shall U.S. Bank Trust National Association, be

personally liable for the payment of any indebtedness or expenses of the Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Trust under the Indenture or any other related documents.

ARTICLE 8  
SUPPLEMENTAL INDENTURES

SECTION 8.01. Supplemental Indentures Without Consent of Holders. Without notice to, or the consent of, any Holder, the Trust and the Indenture Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Indenture, in form satisfactory to the Indenture Trustee, for the purpose of:

(a) curing any ambiguity or correcting or supplementing any provision contained in the Indenture, in the Notes or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture, the Notes, the Funding Agreement or any other Program Documents, which shall not materially adversely affect the interests of any Holder of the Notes;

(b) evidencing and providing for the acceptance of appointment under the Indenture of a successor Indenture Trustee and to add or to change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the Trust or of the Notes under the Indenture by more than one trustee;

(c) adding to the covenants of the Trust or the Indenture Trustee for the benefit of the Holders of the Notes or to surrender any right or power conferred in the Indenture on the Trust;

(d) adding any additional Events of Default;

(e) to provide for the issuance of and establish the form and terms and conditions of Notes as provided in Section 2.02; or

(f) to establish the form of any certifications required to be furnished pursuant to the terms of the Indenture or of the Notes.

Notwithstanding any other provision, the Trust will not enter into any supplemental indenture with the Indenture Trustee or permit the Indenture to be amended or modified if such supplemental indenture, amendment or modification would cause the Trust not to be disregarded or treated as a grantor trust (assuming the Trust were not disregarded) for United States federal income tax purposes.

The Indenture Trustee shall be entitled to receive and rely on an Opinion of Counsel as to whether any such supplemental indenture complies with the requirements of Section 8.01(a), if applicable, and any such opinion shall be conclusive on the Holders.

SECTION 8.02. Supplemental Indenture With Consent of Holders.

(a) With the consent of the Holders of Notes representing a majority in aggregate principal amount of all Outstanding Notes affected by such supplemental indenture, by Act of said Holders delivered to the Trust and the Indenture Trustee, the Trust and the Indenture Trustee may enter one or more indentures supplemental to the Indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of the Holders of the Notes under the Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Note affected thereby:

(i) change the Stated Maturity Date of the principal of, or the time of payment of interest on, any Note;

(ii) reduce the principal amount of, or the interest on, any Note;

(iii) change any Place of Payment where, or the coin or currency in which the principal of, or interest on, any Note is payable;

(iv) impair or affect the right of any Holder to institute suit for the enforcement of any payment on or with respect to the Notes;

(v) reduce the percentage of the aggregate principal amount of the Outstanding Notes, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with provisions of the Indenture or defaults thereunder and their consequences provided for in the Indenture;

(vi) modify any of the provisions of this Section or similar provisions, except to increase any percentage specified in the Indenture or to provide that additional provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Note affected thereby;

(vii) modify or alter the provisions of the definition of the term "Outstanding";

(viii) modify or affect in any manner adverse to the interest of any Holder the terms and conditions of the obligations of the Trust regarding the due and punctual payment of the principal of or interest on, or any other amounts due with respect to, the Notes; or

(ix) permit the creation of any Lien ranking prior to or on a parity with the Lien of the Indenture with respect to any part of any Collateral or terminate the Lien of the Indenture on any property held for the benefit and security of Holders at any time subject to the Indenture or deprive any Holder of the security afforded by the Lien of the Indenture.

(b) The Indenture Trustee may in its discretion determine whether or not any Notes would be affected by any supplemental indenture (and may receive and conclusively rely upon an Opinion of Counsel in doing so) and any such determination shall be conclusive upon all



the Holders, whether theretofore or thereafter authenticated and delivered under the Indenture. The Indenture Trustee shall not be liable for any such determination made in good faith. It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof. Promptly after the execution by the Trust and the Indenture Trustee of any supplemental indenture pursuant to this Section, the Indenture Trustee shall mail to the Holders of the Notes a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Trust to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

(c) Notwithstanding any other provision, the Trust will not enter into any supplemental indenture with the Indenture Trustee or permit the Indenture to be amended or modified if such supplemental indenture, amendment or modification would cause the Trust not to be treated as a disregarded entity or as a grantor trust (assuming it was not a disregarded entity) for United States federal income tax purposes.

SECTION 8.03. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by the Indenture, the Indenture Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel or officer's certificate stating that the execution of such supplemental indenture is authorized or permitted by the Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, indemnities or immunities under the Indenture or otherwise.

SECTION 8.04. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture under this Article, the Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of the Indenture for all purposes; and every Holder of a Note which has theretofore been or thereafter authenticated and delivered under the Indenture shall be bound thereby. Further, the Trust shall be bound by any such supplemental indenture.

SECTION 8.05. Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. If the Trust shall so determine, new Notes so modified as to conform, in the opinion of the Indenture Trustee and the Trust, to any such supplemental indenture may be prepared and executed by the Trust and authenticated by the Indenture Trustee and delivered by the Indenture Trustee in exchange for Outstanding Notes.

SECTION 8.06. Conformity with Trust Indenture Act. Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

ARTICLE 9  
NON-RECOURSE PROVISIONS

SECTION 9.01. Nonrecourse Enforcement. Notwithstanding anything to the contrary contained in the Indenture or any Notes, none of Principal Life, its officers, directors, Affiliates, employees or agents, PFG, its officers, directors, Affiliates, employees or agents, or the Trust or any of the Trustee, the Trust Beneficial Owner, the Agents or any of their respective officers, directors, Affiliates, employees or agents (the "NONRECOURSE PARTIES") will be personally liable for the payment of any principal, interest or any other sums at any time owing under the terms of the Notes. If any Event of Default shall occur with respect to the Notes, the right of the Holders of the Notes and the Indenture Trustee on behalf of such Holders in connection with a claim on such Notes shall be limited solely to a proceeding against the Collateral. Neither such Holders nor the Indenture Trustee on behalf of such Holders will have the right to proceed against the Nonrecourse Parties or the assets held in any other trust organized under the Program or otherwise, to enforce the Notes (except that to the extent they exercise their rights, if any, to (i) seize the Funding Agreement, they may enforce the Funding Agreement against Principal Life, its successors or assigns or (ii) collect under the Guarantee, they may enforce their rights under the Guarantee against PFG, its successors or assigns) or for any deficiency judgment remaining after foreclosure of any property included in the Collateral.

It is expressly understood and agreed that nothing contained in this Section 9.01 shall in any manner or way constitute or be deemed a release of the debt or other obligations evidenced by the Notes or otherwise affect or impair the enforceability against the Trust of the liens, assignments, rights and security interests created by the Indenture, the Collateral or any other instrument or agreement evidencing, securing or relating to the indebtedness or the obligations evidenced by the Notes. Nothing in this Section 9.01 shall preclude the Holders from foreclosing upon any property included in the Collateral.

Holders may not seek to enforce rights against the Trust (a) by commencing any recovery or enforcement proceedings against the Trust, (b) by applying to wind up the Trust, (c) otherwise than through the Indenture Trustee in its exercise of powers to petition a court to appoint a receiver or administrator to the Trust or for the Collateral, (d) by making any statutory demand upon the Trust under applicable corporation law, or (e) in any other manner except as may be provided in the Indenture or in the Notes.

ARTICLE 10  
MEETINGS OF HOLDERS OF NOTES

SECTION 10.01. Purposes for Which Meetings May be Called. A meeting of Holders of Notes may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Indenture to be made, given or taken by the Holders of Notes.

SECTION 10.02. Call, Notice and Place of Meetings. (a) Unless otherwise provided in the Notes, the Indenture Trustee may at any time call a meeting of Holders of the Notes for any purpose specified in Section 10.01, to be held at such time and at such place in The City of New York or such other place as the Indenture Trustee shall determine. Notice of every meeting of

Holder, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 1.06, not less than twenty-one (21) nor more than 180 days prior to the date fixed for the meeting.

(b) In case at any time the Trust or the Holders of at least ten percent (10%) in principal amount of the Outstanding Notes shall have requested the Indenture Trustee to call a meeting of Holders for any purpose specified in Section 10.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Indenture Trustee shall not have made the first publication or mailing of the notice of such meeting within twenty-one (21) days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided in the Indenture, then the Trust or the Holders of Notes in the amount above specified, as the case may be, may determine the time and the place in The City of New York and may call such meeting for such purposes by giving notice thereof as provided in paragraph (a) of this Section.

SECTION 10.03. Persons Entitled to Vote at Meetings. To be entitled to vote at any meeting of Holders, a Person shall be (a) a Holder of one or more Outstanding Notes; or (b) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Notes by such Holder or Holders. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Indenture Trustee and its counsel and any representatives of the Trust and its counsel.

SECTION 10.04. Quorum; Action. The Persons entitled to vote a majority in principal amount of the Outstanding Notes shall constitute a quorum for a meeting of Holders; provided, however, that if any action is to be taken at such meeting with respect to a consent or waiver which the Indenture expressly provides may be given by the Holders of a majority in principal amount of the Outstanding Notes, the Persons entitled to vote a majority in principal amount of the Outstanding Notes shall constitute a quorum. In the absence of a quorum within thirty (30) minutes after the time appointed for any such meeting, the meeting shall, if convened at the request of Holders, be dissolved. In any other case the meeting may be adjourned for a period of not less than ten (10) days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than ten (10) days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given as provided in Section 10.02(a), except that such notice need be given only once not less than five (5) days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Notes which shall constitute a quorum.

Except as limited by Section 8.02(a) and Section 6.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Notes; provided, however, that, except as limited by Section 8.02(a) and Section 6.02, any resolution with respect to any consent or waiver which the Indenture expressly provides may be given by the Holders of a majority in principal amount of the Outstanding Notes

may be adopted at a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid only by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Notes; and provided, further, that, except as limited by Section 8.02(a) and Section 6.02, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action which the Indenture expressly provides may be made, given or taken by the Holders of a specified percentage, which is less than a majority in principal amount of the Outstanding Notes may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Notes.

Notwithstanding the preceding two paragraphs, any request, demand, authorization, direction, notice, consent, waiver or other action of Holders under the Indenture or the Notes may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as otherwise expressly provided in the Indenture, such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee and, when it is expressly required, to the Trust. The percentage of principal amount of the Outstanding Notes held by the Holders delivering such instruments which is required to approve any such action shall be the same as the percentage required for approval at a duly convened meeting of Holders.

Any resolution passed or decision taken at any meeting of Holders duly held or by duly executed instrument in accordance with this Section shall be binding on all Holders of the Notes, whether or not such Holders were present or represented at the meeting.

#### SECTION 10.05. Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Notwithstanding any other provisions of the Indenture, the Indenture Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders in regard to proof of the holding of Notes and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Notes shall be proved in the manner specified in Section 1.04 and the appointment of any proxy shall be proved in the manner specified in Section 1.04. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.04 or other proof.

(b) The Indenture Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Trust or by Holders as provided in Section 10.02(b), in which case the Trust or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in principal amount of the Outstanding Notes represented at the meeting.

(c) At any meeting, each Holder or proxy shall be entitled to one vote for each \$1,000 of principal amount of Notes held or represented by him, her or it; provided, however, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder or proxy.

(d) Notwithstanding any other provision in the Indenture to the contrary, any meeting of Holders duly called pursuant to Section 10.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in principal amount of the Outstanding Notes represented at the meeting; and the meeting may be held as so adjourned without further notice.

SECTION 10.06. Counting Votes and Recording Action of Meetings. The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record, at least in triplicate, of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 10.02 and, if applicable, Section 10.04. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Trust, and another to the Indenture Trustee to be preserved by the Indenture Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

#### ARTICLE 11 NOTES IN FOREIGN CURRENCIES

SECTION 11.01. Notes in Foreign Currencies. In the absence of any provision to the contrary in the form of Notes, whenever the Indenture provides for (a) any action by, or the determination of any of the rights of, the Holders of Notes if not all of the Notes are denominated in the same currency, or (b) any distribution to the Holders of Notes of any amount in respect of any Note denominated in a currency other than Dollars, then all foreign denominated Notes shall be treated for any such action, determination of rights or distribution as that amount of Dollars that could be obtained for such amount on such reasonable basis of exchange and as of the Regular Record Date with respect to such Notes for such action, determination of rights or distribution (or, if there shall be no applicable Regular Record Date, such other date reasonably proximate to the date of such action, determination of rights or distribution) as the Trust may specify in a written notice to the Indenture Trustee or, in the absence of such written notice, as the Indenture Trustee may determine.

EXHIBIT A-1  
FORM OF RETAIL GLOBAL NOTE

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF A DEPOSITARY (AS DEFINED IN THE INDENTURE) OR A NOMINEE OF A DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND UNLESS ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

PRINCIPAL LIFE INCOME FUNDINGS TRUST o

PRINCIPAL(R) LIFE CORENOTES(R)

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing: [ ] Yes [ ] No. If yes,  
    indicate name(s) of Securities Exchange(s):  
\_\_\_\_\_  
Depository:  
Authorized Denominations:

Floating Rate Note: [ ] Yes [ ] No. If yes,  
Regular Floating Rate Notes [ ]  
Floating Rate/ Fixed Rate Notes: [ ]  
Interest Rate:  
Interest Rate Basis(es):  
LIBOR [ ]  
[ ] LIBOR Reuters Page:  
[ ] LIBOR Moneyline Telerate Page:  
LIBOR Currency:

- - - - -

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license. "CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

Collateral held in the Trust: Principal Life Insurance Company Funding Agreement No. \_\_, the related Principal Financial Group, Inc. Guarantee which fully and unconditionally guarantees the payment obligations of Principal Life Insurance Company under the Funding Agreement, all proceeds of the Funding Agreement and the related Guarantee and all rights and books and records pertaining to the foregoing.

Interest Rate or Formula:

Fixed Rate Note:  Yes  No. If yes,

Interest Rate:

Interest Payment Frequency:

Day Count Convention:

Additional/Other Terms:

Discount Note:  Yes  No. If yes,

Total Amount of Discount:

Initial Accrual Period of Discount:

Interest Payment Dates:

Additional/Other Terms:

Redemption Provisions:  Yes  No. If yes,

Initial Redemption Date:

Additional/Other Terms:

Repayment Provisions:  Yes  No. If yes,

Repayment Date(s):

Repayment Price:

Additional/Other Terms:

CMT Rate

Designated CMT Telerate Page:

If Telerate Page7052:

Weekly Average

Monthly Average

Designated CMT Maturity Index:

CD Rate

Commercial Paper Rate

Prime Rate

Treasury Rate

Index Maturity:

Spread and/or Spread Multiplier:

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Reset Dates:

Interest Determination Date(s):

Interest Payment Dates:

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Fixed Rate Commencement Date, if any:

Fixed Interest Rate, if any:

Day Count Convention:

Additional/Other Terms:

Regular Record Date(s):

Sinking Fund:

Calculation Agent:

Additional/Other Terms:

Survivor's Option:  Yes  No.

If yes, the attached Survivor's

Option Rider is incorporated into this Note.

Trust Put Limitation:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to Cede & Co., or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing

Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

Payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, will be made through the Indenture Trustee to the account of DTC or its nominee and will be made in accordance with depository arrangements with DTC.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.



IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE FORM OF NOTE]

SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY. This Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars.

SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month this Note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":

(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, LIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.

(vii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to LIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (4) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(viii) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination

made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(ix) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(x) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xi) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded to the nearest cent.

(xii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, LIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiii) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

(1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:

- i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a "Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular

Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
  - vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
  - vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
  - viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or
- (2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:
- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor



service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--

Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately

11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(E) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of

business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(F) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity

closest to the Index Maturity specified on the face hereof; or (7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment

Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable. In the event of repayment of this Note in part only, a new Note for the portion hereof not repaid shall be issued in the name of the Holder hereof upon the surrender hereof.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; NO ADDITIONAL AMOUNTS; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.



SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of a book-entry-only system with no physical distribution of certificates to be made except as provided in the Indenture. The book-entry system maintained by DTC will evidence ownership of the Notes, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The Trust and the Indenture Trustee will recognize Cede & Co., as nominee of DTC, as the registered owner of the Notes, as the Holder of the Notes for all purposes, including payment of principal, premium (if any) and interest, notices and voting. Transfer of principal, premium (if any) and interest to participants of DTC will be the responsibility of DTC, and transfer of principal, premium (if any) and interest to beneficial holders of the Notes by participants of DTC will be the responsibility of such participants and other nominees of such beneficial holders. So long as the book-entry system is in effect, the selection of any Notes to be redeemed or repaid will be determined by DTC pursuant to rules and procedures established by DTC and its participants. Neither the Trust nor the Indenture Trustee will not be responsible or liable for such transfers or payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

(d) This Note or portion hereof may not be exchanged for Definitive Notes, except in the limited circumstances provided for in the Indenture. The transfer or exchange of Definitive

Notes shall be subject to the terms of the Indenture. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE: \_\_\_\_\_

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

\$ \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

Name: \_\_\_\_\_  
Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_

## SURVIVOR'S OPTION RIDER

(a) Unless this Note, on its face, has been declared due and payable prior to the Maturity Date by reason of any Event of Default under the Indenture, or has been previously redeemed or otherwise repaid, the authorized Representative (as defined below) of a deceased Beneficial Owner (as defined below) of this Note shall have the option to elect repayment by the Trust in whole or in part prior to the Maturity Date following the death of the Beneficial Owner (a "Survivor's Option"). The Survivor's Option may not be exercised unless this Note was held by the Beneficial Owner or the estate of that Beneficial Owner for a period beginning at least 6 months immediately prior to the death of such Beneficial Owner. "Beneficial Owner" as used in this Survivor's Option Rider means, with respect to this Note, the person who has the right, immediately prior to such person's death, to receive the proceeds from the disposition of this Note, as well as the right to receive payments on this Note.

(b) Upon (1) the valid exercise of the Survivor's Option and the proper tender of this Note by or on behalf of a person that has authority to act on behalf of the deceased Beneficial Owner of this Note under the laws of the appropriate jurisdiction (including, without limitation, the personal representative or executor of the deceased Beneficial Owner or the surviving joint owner of the deceased Beneficial Owner) (the "Representative") and (2) the tender and acceptance of that portion of the Funding Agreement equal to the amount of the portion of this Note to be redeemed, the Trust shall repay this Note (or portion thereof) at a price equal to 100% of the unpaid Principal Amount of the deceased Beneficial Owner's beneficial interest in this Note plus accrued and unpaid interest to, but excluding, the date of such repayment. However, the Trust shall not be obligated to repay:

(i) beneficial ownership interests in Notes exceeding the greater of \$2,000,000 or 2% (or such other amounts, as specified in the Pricing Supplement) in aggregate principal amount for all notes then outstanding under the Principal(R) Life CoreNotes(R) program as of the end of the most recent calendar year (the "Annual Put Limitation");

(ii) on behalf of an individual deceased Beneficial Owner, any beneficial ownership interest in all notes issued under the Principal(R) Life CoreNotes(R) program that exceeds \$250,000 (or such other amounts, as specified in the Pricing Supplement) in any calendar year (the "Individual Put Limitation"); or

(iii) beneficial ownership interests in Notes exceeding the amount specified on the face hereof and in the Pricing Supplement (the "Trust Put Limitation").

(c) The Trust shall not make principal repayments pursuant to exercise of the Survivor's Option in amounts that are less than \$1,000, and, in the event that the limitations described in the preceding sentence would result in the partial repayment of this Note, the Principal Amount remaining Outstanding after repayment must be at least \$1,000 (the minimum authorized denomination of the Notes).

(d) An otherwise valid election to exercise the Survivor's Option may not be withdrawn.

(e) Election to exercise the Survivor's Option will be accepted in the order that elections are received by the Trustee, except for any Notes (or portion thereof) the acceptance of which

would contravene (1) the Annual Put Limitation, (2) the Individual Put Limitation or (3) the Trust Put Limitation. Any Note (or portion thereof) accepted for repayment pursuant to exercise of the Survivor's Option shall be repaid on the first Interest Payment Date that occurs 20 or more calendar days after the date of such acceptance. If, as of the end of any calendar year, the aggregate principal amount of all notes (or portions thereof) issued under the Principal(R) Life CoreNotes program that have been tendered pursuant to the valid exercise of the Survivor's Option during such year has exceeded the Annual Put Limitation, the Individual Put Limitation or the Trust Put Limitation, for such year, any exercise(s) of the Survivor's Option with respect to Notes (or portions thereof) not accepted during such calendar year, because such acceptance would have contravened any such limitation, shall be deemed to be tendered on the first day of the following calendar year in the order all such notes (or portions thereof) were originally tendered. In the event that this Note (or any portion hereof) tendered for repayment pursuant to valid exercise of the Survivor's Option is not accepted or is to be delayed, the Trustee shall deliver a notice by first-class mail to the Depository that states the reason such Note (or portion thereof) has not been accepted for payment or is to be delayed.

(f) In order to obtain repayment through exercise of the Survivor's Option with respect to this Note (or portion hereof), the Representative must provide the following items to the broker or other entity through which the beneficial interest in this Note is held by the deceased Beneficial Owner: (1) a written instruction to such broker or other entity in the form of Annex A attached hereto to notify the Depository of the Representative's desire to obtain repayment through the exercise of the Survivor's Option; (2) appropriate evidence satisfactory to the Trustee that (i) the deceased was the Beneficial Owner of this Note at the time of death and the interest in this Note was owned by the deceased Beneficial Owner or his or her estate for a period beginning at least six months immediately prior to the death of such Beneficial Owner, (ii) the death of such Beneficial Owner has occurred, and the date of such death, and (iii) the Representative has authority to act on behalf of the deceased Beneficial Owner; (3) if the interest in this Note is held by a nominee of the deceased Beneficial Owner, a certificate satisfactory to the Trustee from such nominee attesting to the deceased's beneficial ownership of this Note; (4) a written request for repayment signed by the Representative, with the signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States; (5) if applicable, a properly executed assignment or endorsement; (6) tax waivers and such other instruments or documents that the Trustee reasonably requires in order to establish the validity of the beneficial ownership of this Note and the claimant's entitlement to payment; and (7) any additional information the Trustee reasonably requires to evidence satisfaction of any conditions to the exercise of such Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of this Note. Such broker or other entity shall then deliver each of these items to the direct participant of the Depository, such direct participant being the entity that holds the beneficial interest in this Note on behalf of the deceased Beneficial Owner, together with evidence satisfactory to the Indenture Trustee from the broker or other entity stating that it represents the deceased Beneficial Owner. Such direct participant shall then deliver such items to the Indenture Trustee. The Indenture Trustee will then deliver these items to the Trustee and will provide the Trustee with any additional information (after receipt from such direct participant) the Trustee may request in connection with such exercise. Such direct participant shall be responsible for disbursing any payments it receives from the Depository pursuant to exercise of the Survivor's Option to the

appropriate Representative. All questions, other than with respect to the right to limit the aggregate Principal Amount of Notes as to which exercises of the Survivor's Option shall be accepted in any one calendar year or as to the Notes, regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.

(g) The death of a person holding a beneficial interest in this Note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased owner's spouse, will be deemed the death of the Beneficial Owner of this Note, and the entire Principal Amount of this Note so held shall be subject to repayment by the Trust upon request in accordance with the terms and provisions hereof. However, the death of a person holding a beneficial interest in this Note as tenant in common with a person other than such deceased owner's spouse will be deemed the death of a Beneficial Owner only with respect to such deceased person's ownership interest in this Note.

(h) The death of a person who was a lifetime beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note to the extent of that person's interest in the trust. The death of a person who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust holding a beneficial interest in this Note will be treated as the death of the Beneficial Owner of this Note only with respect to the deceased person's beneficial interest in this Note, unless a husband and wife are the tenants in common, in which case the death of either will be treated as the death of the owner of this Note.

(i) The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in this Note will be deemed the death of the Beneficial Owner of this Note for purposes of the Survivor's Option, regardless of whether that Beneficial Owner was the registered holder of this Note, if such beneficial ownership interest can be established to the satisfaction of the Trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, such as ownership under the Uniform Transfers of Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife and lifetime custodial and trust arrangements.

REPAYMENT ELECTION FORM

PRINCIPAL LIFE INSURANCE COMPANY

PRINCIPAL(R) LIFE CORENOTES(R)

CUSIP NUMBER \_\_\_\_\_

To: [Name of Issuing Trust] (the "TRUST")

The undersigned financial institution (the "FINANCIAL INSTITUTION") represents the following:

- o The Financial Institution has received a request for repayment from the executor or other authorized representative (the "AUTHORIZED REPRESENTATIVE") of the deceased beneficial owner listed below (the "DECEASED BENEFICIAL OWNER") of Principal(R) Life CoreNotes(R) (CUSIP No. \_\_\_\_\_) (the "NOTES").
- o At the time of his or her death, the Deceased Beneficial Owner owned Notes in the principal amount listed below.
- o The Deceased Beneficial Owner acquired the Notes at least six (6) months before the date of death of such Deceased Beneficial Owner.
- o The Financial Institution currently holds such notes as a direct or indirect participant in The Depository Trust Company (the "DEPOSITARY").

The Financial Institution agrees to the following terms:

- o The Financial Institution shall follow the instructions (the "INSTRUCTIONS") accompanying this Repayment Election Form (this "FORM").
- o The Financial Institution shall make all records specified in the Instructions supporting the above representations available to U.S. Bank Trust National Association (the "TRUSTEE") or the [Name of Issuing Trust] (the "TRUST") for inspection and review within five business days of the Trustee's or the Trust's request.
- o If the Financial Institution, the Trustee or the Trust, in any such party's reasonable discretion, deems any of the records specified in the Instructions supporting the above representations unsatisfactory to substantiate a claim for repayment, the

- - - - -

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license. "CoreNotes(R)" is a service mark of Merrill Lynch & Co.

Financial Institution shall not be obligated to submit this Form, and the Trustee or Trust may deny repayment. If the Financial Institution cannot substantiate a claim for repayment, it shall notify the Trustee immediately.

- o Repayment elections may not be withdrawn.
- o The Financial Institution agrees to indemnify and hold harmless the Trustee and the Trust against and from any and all claims, liabilities, costs, losses, expenses, suits and damages resulting from the Financial Institution's above representations and request for repayment on behalf of the Authorized Representative.
- o The Notes will be repaid on the first Interest Payment Date to occur at least 20 calendar days after the date of acceptance of the notes for repayment, unless such date is not a business day, in which case the date of repayment shall be the next succeeding business day.
- o Subject to the Trust's rights to limit the aggregate principal amount of Notes as to which exercises of the Survivor's Option shall be accepted in any one calendar year, all questions as to the eligibility or validity of any exercise of the Survivor's Option will be determined by the Trustee, in its sole discretion, which determination shall be final and binding on all parties.



REPAYMENT ELECTION FORM

(1) -----  
Name of Deceased Beneficial Owner

(2) -----  
Date of Death

(3) -----  
Name of Authorized Representative Requesting Repayment

(4) -----  
Name of Financial Institution Requesting Repayment

(5) -----  
Signature of Authorized Representative of Financial Institution Requesting Repayment

(6) -----  
Principal Amount of Requested Repayment

(7) -----  
Date of Election

(8)	Financial Institution Representative Name: Phone Number: Fax Number: Mailing Address (no P.O. Boxes):	(9)	Wire instructions for payment: Bank Name: ABA Number: Account Name: Account Number: Reference (optional):
-----	--	-----	--

-----

TO BE COMPLETED BY THE TRUSTEE:

- (A) ELECTION NUMBER\*:
  - (B) DELIVERY AND PAYMENT DATE:
  - (C) PRINCIPAL AMOUNT:
  - (D) ACCRUED INTEREST:
  - (E) DATE OF RECEIPT OF FORM BY THE TRUSTEE:
  - (F) DATE OF ACKNOWLEDGMENT BY THE TRUSTEE:
- - - - -

\* To be assigned by the Trustee upon receipt of this Form. An acknowledgement, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated in item (8) above.

INSTRUCTIONS FOR COMPLETING REPAYMENT ELECTION FORM AND EXERCISING  
REPAYMENT OPTION

Capitalized terms used and not defined herein have the meanings defined in the accompanying Repayment Election Form.

1. Collect and retain for a period of at least three years (1) satisfactory evidence of the authority of the Authorized Representative, (2) satisfactory evidence of death of the Deceased Beneficial Owner, (3) satisfactory evidence that the Deceased Beneficial Owner beneficially owned, at the time of his or her death, the notes being submitted for repayment, (4) satisfactory evidence that the notes being submitted for repayment were acquired by the Deceased Beneficial Owner at least six (6) months before the date of the death of such Deceased Beneficial Owner, and (5) any necessary tax waivers. For purposes of determining whether the notes will be deemed beneficially owned by an individual at any given time, the following rules shall apply:
  - o If a note (or a portion thereof) is beneficially owned by tenants by the entirety or joint tenants, the note (or relevant portion thereof) will be regarded as beneficially owned by a single owner. Accordingly, the death of a tenant by the entirety or joint tenant will be deemed the death of the beneficial owner and the entire principal amount so owned will become eligible for repayment.
  - o The death of a person beneficially owning a note (or a portion thereof) by tenancy in common will be deemed the death of the beneficial owner only with respect to the deceased owner's interest in the note (or relevant portion thereof) so owned, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficial owner and the entire principal amount so owned will be eligible for repayment.
  - o A note (or a portion thereof) beneficially owned by a trust will be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary's interest in the trust (however, a trust's beneficiaries collectively cannot be beneficial owners of more notes than are owned by the trust). The death of a beneficiary of a trust will be deemed the death of the beneficial owner of the notes (or relevant portion thereof) beneficially owned by the trust to the extent of that beneficiary's interest in the trust. The death of an individual who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust will be deemed the death of the beneficiary of the trust only with respect to the deceased holder's beneficial interest in the note, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficiary of the trust.
  - o The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a note (or a portion thereof) will be deemed the death of the beneficial owner of that note (or relevant portion thereof), regardless of the registration of ownership, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest will exist in many cases of street name or nominee ownership, custodial arrangements, ownership by a trustee, ownership under the Uniform Transfers of Gifts to Minors Act and community property or other joint ownership arrangements between spouses. Beneficial interest will be evidenced by such factors as the power to sell or otherwise dispose of a note, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a note.
2. Indicate the name of the Deceased Beneficial Owner on line (1).
3. Indicate the date of death of the Deceased Beneficial Owner on line (2).
4. Indicate the name of the Authorized Representative requesting repayment on line (3).

5. Indicate the name of the Financial Institution requesting repayment on line (4).
6. Affix the authorized signature of the Financial Institution's representative on line (5). THE SIGNATURE MUST BE MEDALLION SIGNATURE GUARANTEED.
7. Indicate the principal amount of notes to be repaid on line (6).
8. Indicate the date this Form was completed on line (7).
9. Indicate the name, mailing address (no P.O. boxes, please), telephone number and facsimile-transmission number of the party to whom the acknowledgment of this election may be sent in item (8).
10. Indicate the wire instruction for payment on line (9).
11. Leave lines (A), (B), (C), (D), (E) and (F) blank.
12. Mail or otherwise deliver an original copy of the completed Form to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, New York 10005

13. FACSIMILE TRANSMISSIONS OF THE REPAYMENT ELECTION FORM WILL NOT BE ACCEPTED.
14. If the acknowledgement of the Trustee's receipt of this Form, including the assigned Election Number, is not received within ten days of the date such information is sent to Citibank, N.A., contact the Trustee at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.
15. For assistance with this Form or any questions relating thereto, please contact U.S. Bank Trust National Association at 100 Wall Street, 16th Floor, New York, New York 10005, attention: Corporate Trust Administration, telephone number: (212) 361-2458.

EXHIBIT A-2  
FORM OF INSTITUTIONAL GLOBAL NOTE

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF A DEPOSITARY (AS DEFINED IN THE INDENTURE) OR A NOMINEE OF A DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND UNLESS ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

Principal Life Income Fundings Trust o

SENIOR SECURED MEDIUM-TERM NOTES

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing:  Yes  No. If yes,  
    indicate name(s) of Securities Exchange(s):  
    \_\_\_\_\_.

Depository:  
Authorized Denominations:  
Collateral held in the Trust: Principal Life Insurance  
    Company Funding Agreement No. o , the related  
    Principal Financial Group, Inc. Guarantee which fully

Floating Rate Note:  Yes  No. If yes,  
Regular Floating Rate Notes   
Inverse Floating Rate Notes   
Floating Rate/ Fixed Rate Notes:   
Interest Rate:  
Interest Rate Basis(es):  
LIBOR   
     LIBOR Reuters Page:  
     LIBOR Moneyline Telerate Page:  
LIBOR Currency:  
EURIBOR

and unconditionally guarantees the payment obligations of Principal Life Insurance Company under the Funding Agreement, all proceeds of the Funding Agreement and the related Guarantee and all rights and books and records pertaining to the foregoing.

Additional Amounts to be Paid:  Yes  No

Interest Rate or Formula:

Fixed Rate Note:  Yes  No. If yes,

Interest Rate:

Interest Payment Frequency:

Day Count Convention:

Additional/Other Terms:

Amortizing Note:  Yes  No. If yes,

Amortization schedule or formula:

Additional/Other Terms:

Discount Note:  Yes  No. If yes,

Total Amount of Discount:

Initial Accrual Period of Discount:

Interest Payment Dates:

Additional/Other Terms:

Redemption Provisions:  Yes  No. If yes,

Initial Redemption Date:

Initial Redemption Percentage:

Annual Redemption Percentage Reduction,

if any:

Additional/Other Terms:

Repayment Provisions:  Yes  No. If yes,

Repayment Date(s):

Repayment Price:

Additional/Other Terms:

CMT Rate

Designated CMT Telerate Page:

If Telerate Page 7052:

Weekly Average

Monthly Average

Designated CMT Maturity Index:

CD Rate

Commercial Paper Rate

Eleventh District Cost of Funds Rate

Federal Funds Rate

Prime Rate

Treasury Rate

Index Maturity:

Spread and/or Spread Multiplier:

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Reset Dates:

Interest Determination Date(s):

Interest Payment Dates:

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Fixed Rate Commencement Date, if any:

Fixed Interest Rate, if any:

Day Count Convention:

Additional/Other Terms:

Regular Record Date(s):

Sinking Fund:

Specified Currency:

Exchange Rate Agent:

Calculation Agent:

Additional/Other Terms:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to Cede & Co., or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Unless otherwise specified above, payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). If the Specified Currency specified above is other than U.S. Dollars, the Holder (as defined in the Indenture) shall receive such payments in such Foreign Currency (as hereinafter defined). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter

defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

Payments of principal of, and premium, if any, and interest and other amounts due and owing, if any, will be made through the Indenture Trustee to the account of DTC or its nominee and will be made in accordance with depository arrangements with DTC.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.

A-2-4

IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory



SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY.

(a) Unless specified otherwise on the face hereof, this Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars. If specified as the Specified Currency, this Note may be denominated in, and payments of principal, premium, if any, and/or interest, if any, may be made in a single currency other than U.S. Dollars (a "Foreign Currency"). If this Note is denominated in a Foreign Currency, the Holder of this Note is required to pay for this Note in the Specified Currency.

(b) Unless specified otherwise on the face hereof, if this Note is denominated in a Foreign Currency, the Trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, this Note in the Specified Currency. Any amounts so payable by the Trust in the Specified Currency will be converted by the Exchange Rate Agent into U.S. Dollars for payment to the Holder hereof unless otherwise specified on the face of this Note or the Holder elects, in the manner described below, to receive these amounts in the Specified Currency. If this Note is denominated in a Foreign Currency, any U.S. Dollar amount to be received by the Holder hereof will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Trust for the purchase by the quoting dealer of the Specified Currency for U.S. Dollars for settlement on that payment date in the aggregate amount of the Specified Currency payable to all Holders of the Notes scheduled to receive U.S. Dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holders of the Notes by deductions from any payments. If three bid quotations are not available, payments will be made in the Specified Currency. If this Note is denominated in a Foreign Currency, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the Specified Currency by submitting a written request to the Indenture Trustee at its Corporate Trust Office in The City of New York on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the Indenture Trustee on or prior to a Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. The Holder of a Note denominated in a Foreign Currency to be held in the name of a broker or nominee should contact their broker or nominee to determine whether and how an election to receive payments in the Specified Currency may be made. Unless specified otherwise on the face hereof, if the Specified Currency is other than U.S. Dollars, a beneficial owner of a Note represented by a global security which elects to receive payments of principal, premium, if any, and/or interest, if any, in the Specified Currency must notify the participant

through which it owns its interest on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be, of its election. The applicable participant must notify DTC of its election on or prior to the third Business Day after the applicable Regular Record Date or at least 12 calendar days prior to the Maturity Date, as the case may be, and DTC will notify the Indenture Trustee of that election on or prior to the fifth Business Day after the applicable Regular Record Date or at least ten calendar days prior to the Maturity Date, as the case may be. If complete instructions are received by the participant from the applicable beneficial owner and forwarded by the participant to DTC, and by DTC to the Indenture Trustee, on or prior to such dates, then the applicable beneficial owner will receive payments in the Specified Currency.

(c) The Trust will indemnify the Holder hereof against any loss incurred as a result of any judgment or order being given or made for any amount due under this Note and that judgment or order requiring payment in a currency (the "Judgment Currency") other than the Specified Currency, and as a result of any variation between: (i) the rate of exchange at which the Specified Currency amount is converted into the Judgment Currency for the purpose of that judgment or order; and (ii) the rate of exchange at which the Holder, on the date of payment of that judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received.

(d) Unless otherwise specified on the face hereof, if payment hereon is required to be made in a Foreign Currency and such currency is unavailable due to the imposition of exchange controls or other circumstances beyond the Trust's control, then the Trust will be entitled to make payments with respect hereto in U.S. Dollars on the basis of the Market Exchange Rate (as hereinafter defined), computed by the Exchange Rate Agent, on the second Business Day prior to the particular payment or, if the Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

(e) The "Market Exchange Rate" for the Foreign Currency shall mean the noon dollar buying rate in The City of New York for cable transfers for the Foreign Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

(f) All determinations made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder hereof.

(g) All costs of exchange in respect of this Note, if denominated in a Foreign Currency, will be borne by the Holder hereof.

### SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month this Note was issued.
Annual	Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":

(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the

face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Inverse Floating Rate Notes. If this Note is specified on the face hereof as an "Inverse Floating Rate Note", this Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any; provided, however, that interest on this Inverse Floating Rate Note will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on this Inverse Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(vii) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month, with the exception of any

monthly reset Floating Rate Note as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.

(viii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate, Federal Funds Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to the Eleventh District Cost of Funds Rate--the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below); (4) with respect to LIBOR and EURIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (5) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(ix) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest

Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(x) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(xi) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xii) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded, in the case of U.S. Dollars, to

the nearest cent or, in the case of a Foreign Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

(xiii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiv) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors

of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

- (1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:
  - i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
  - ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
  - iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
  - iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a



"Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or

(2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:

- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or

- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or
- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--

Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) Eleventh District Cost of Funds Rate Notes. If the Interest Rate Basis is the Eleventh District Cost of Funds Rate, this Note shall be deemed an "Eleventh District Cost of Funds Rate Note." Unless otherwise specified on the face hereof, "Eleventh District Cost of Funds Rate" means: (1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption "11th District" on the display on Moneyline Telerate (or any successor service) on page 7058 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7058") as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 7058, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the "Eleventh District Index") by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or (3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date,

the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

(E) Federal Funds Rate Notes. If the Interest Rate Basis is the Federal Funds Rate, this Note shall be deemed a "Federal Funds Rate Note." Unless otherwise specified on the face hereof, "Federal Funds Rate" means: (1) the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15(519) under the caption "Federal Funds (Effective)" and displayed on Moneyline Telerate (or any successor service) on page 120 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 120"); or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 120 or is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent prior to 9:00 A.M., New York City time, on that Interest Determination Date; or (4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate in effect on the particular Interest Determination Date.

(F) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include

affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(G) EURIBOR Notes. If the Interest Rate Basis is EURIBOR, this Note shall be deemed a "EURIBOR Note." Unless otherwise specified on the face hereof, "EURIBOR" means: (1) with respect to any Interest Determination Date relating to this EURIBOR Note (a "EURIBOR Interest Determination Date"), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI - The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, as the rate appears on Moneyline Telerate or any successor service, on page 248 (or any other page as may replace that specified page on the service) ("Moneyline Telerate Page 248") as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or (2) if such rate does not appear on Moneyline Telerate Page 248, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the

Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or (3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or (4) if the banks so selected by the Calculation Agent are not quoting as mentioned above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date. "Euro-zone" means the region comprised of member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union.

(H) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may

include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(I) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified on the face hereof; or (7) if the dealers so



selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Discount Note, if applicable, multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

(d) Amortizing Notes. If this Note is specified on the face hereof as an "Amortizing Note", this Note will bear interest in the same manner as set forth in Section 3(a) above, and payments on principal, premium, if any, and interest will be made as set forth on the face hereof

and/or in accordance with Schedule I attached hereto. The Trust will make payments combining principal, premium (if any) and interest, if applicable, on the dates and in the amounts set forth in the table appearing in Schedule I, attached to this Note or in accordance with the formula specified on the face hereof. Payments made hereon will be applied first to interest due and payable hereon and then to the reduction of the unpaid principal amount hereof.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean an amount equal to the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) multiplied by the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. The Initial Redemption Percentage, if any, applicable to this Note shall decline at each anniversary of the Initial Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100% of the unpaid amount thereof to be redeemed. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS AND AMORTIZING NOTES. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund. If this Note is an Amortizing Note, this Note may pay an amount in respect of both interest and principal amortized over the life of this Note.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture

Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event

Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof, subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.

SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of a book-entry-only system with no physical distribution of certificates to be made except as provided in the Indenture. The book-entry system maintained by DTC will evidence ownership of the Notes, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The Trust and the Indenture Trustee will recognize Cede & Co., as nominee of DTC, as the registered owner of the Notes, as the Holder of the Notes for all purposes, including payment of principal, premium (if any) and interest, notices and voting. Transfer of principal, premium (if any) and interest to participants of DTC will be the responsibility of DTC, and transfer of principal, premium (if any) and interest to beneficial holders of the Notes by participants of DTC will be the responsibility of such participants and other nominees of such beneficial holders. So long as the book-entry system is in effect, the selection of any Notes to be redeemed or repaid will be determined by DTC pursuant to rules and procedures established by DTC and its participants. Neither the Trust nor the Indenture Trustee will not be responsible or liable for such transfers or payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

(d) This Note or portion hereof may not be exchanged for Definitive Notes, except in the limited circumstances provided for in the Indenture. The transfer or exchange of Definitive Notes shall be subject to the terms of the Indenture. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE:

NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

\$ \_\_\_\_\_

Name: \_\_\_\_\_  
Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_

SCHEDULE I  
AMORTIZATION TABLE OR FORMULA

A-2-28

EXHIBIT A-3  
FORM OF INSTITUTIONAL DEFINITIVE NOTE

THIS NOTE IS A DEFINITIVE NOTE WITHIN THE MEANING OF THE INDENTURE (HEREINAFTER DEFINED) AND IS REGISTERED IN THE NAME OF THE HOLDER (AS DEFINED IN THE INDENTURE) HEREOF. THIS NOTE IS NOT EXCHANGEABLE FOR A GLOBAL NOTE (AS DEFINED IN THE INDENTURE).

UNLESS THIS NOTE IS PRESENTED BY THE HOLDER OR AN AUTHORIZED REPRESENTATIVE OF THE HOLDER TO THE TRUST (HEREINAFTER DEFINED) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED HOLDER HEREOF HAS AN INTEREST HEREIN.

REGISTERED NO.:                      CUSIP NO.:                      PRINCIPAL AMOUNT: U.S. \$

Principal Life Income Fundings Trust o

SENIOR SECURED MEDIUM-TERM NOTES

Original Issue Date:  
Issue Price:  
Stated Maturity Date:  
Settlement Date:  
Securities Exchange Listing:  Yes  No. If yes,  
    indicate name(s) of Securities Exchange(s):  
    \_\_\_\_\_.

Authorized Denominations:  
Collateral held in the Trust: Principal Life Insurance  
    Company Funding Agreement No. ?, the related Principal  
    Financial Group, Inc. Guarantee which fully and  
    unconditionally guarantees the payment obligations of  
    Principal Life Insurance Company under the Funding  
    Agreement, all proceeds of the Funding Agreement and  
    the related Guarantee and all rights and books and  
    records pertaining to the foregoing.

Additional Amounts to be Paid:  Yes  No  
Interest Rate or Formula:  
Fixed Rate Note:  Yes  No. If yes,  
    Interest Rate:  
    Interest Payment Frequency:  
    Day Count Convention:  
    Additional/Other Terms:

Floating Rate Note:  Yes  No. If yes,  
    Regular Floating Rate Notes   
    Inverse Floating Rate Notes   
    Floating Rate/ Fixed Rate Notes:   
Interest Rate:  
Interest Rate Basis(es):  
LIBOR   
     LIBOR Reuters Page:  
     LIBOR Moneyline Telerate Page:  
LIBOR Currency:  
EURIBOR   
CMT Rate   
    Designated CMT Telerate Page:  
        If Telerate Page 7052:  
         Weekly Average  
         Monthly Average

Designated CMT Maturity Index:  
CD Rate   
Commercial Paper Rate   
Eleventh District Cost of Funds Rate   
Federal Funds Rate   
Prime Rate



Amortizing Note: [ ] Yes [ ] No. If yes,  
Amortization schedule or formula:  
Additional/Other Terms:  
Discount Note: [ ] Yes [ ] No. If yes,  
Total Amount of Discount:  
Initial Accrual Period of Discount:  
Interest Payment Dates:  
Additional/Other Terms:  
Redemption Provisions: [ ] Yes [ ] No. If yes,  
Initial Redemption Date:  
Initial Redemption Percentage:  
Annual Redemption Percentage Reduction,  
if any:  
Additional/Other Terms:  
Repayment Provisions: [ ] Yes [ ] No. If yes,  
Repayment Date(s):  
Repayment Price:  
Additional/Other Terms:

Treasury Rate [ ]  
Index Maturity:  
Spread and/or Spread Multiplier:  
Initial Interest Rate, if any:  
Initial Interest Reset Date:  
Interest Reset Dates:  
Interest Determination Date(s):  
Interest Payment Dates:  
Maximum Interest Rate, if any:  
Minimum Interest Rate, if any:  
Fixed Rate Commencement Date, if any:  
Fixed Interest Rate, if any:  
Day Count Convention:  
Additional/Other Terms:  
Regular Record Date(s):  
Sinking Fund:  
Specified Currency:  
Exchange Rate Agent:  
Calculation Agent:  
Additional/Other Terms:

The Principal Life Income Fundings Trust designated above (the "Trust"), for value received, hereby promises to pay to \_\_\_\_\_, or its registered assigns, the Principal Amount specified above on the Stated Maturity Date specified above and, if so specified above, to pay interest thereon from the Original Issue Date specified above or from the most recent Interest Payment Date specified above to which interest has been paid or duly provided for at the rate per annum determined in accordance with the provisions on the reverse hereof and as specified above, until the principal hereof is paid or made available for payment. Unless otherwise specified above, payments of principal, premium, if any, and interest hereon will be made in the lawful currency of the United States of America ("U.S. Dollars" or "United States dollars"). If the Specified Currency specified above is other than U.S. Dollars, the Holder (as defined in the Indenture) shall receive such payments in such Foreign Currency (as hereinafter defined). The "Principal Amount" of this Note at any time means (1) if this Note is a Discount Note (as hereinafter defined), the Amortized Face Amount (as hereinafter defined) at such time (as defined in Section 3(c) on the reverse hereof) and (2) in all other cases, the Principal Amount hereof. Capitalized terms not otherwise defined herein shall have their meanings set forth in the Indenture, dated as of the date of the Pricing Supplement (the "Indenture"), between Citibank, N.A., as the indenture trustee (the "Indenture Trustee"), and the Trust, or on the face hereof.

This Note will mature on the Stated Maturity Date, unless its principal (or any installment of its principal) becomes due and payable prior to the Stated Maturity Date, whether, as applicable, by the declaration of acceleration of maturity, notice of redemption by the Trust or otherwise (the Stated Maturity Date or any date prior to the Stated Maturity Date on which this Note becomes due and payable, as the case may be, is referred to as the "Maturity Date").

A "Discount Note" is any Note that has an Issue Price that is less than 100% of the Principal Amount thereof by more than a percentage equal to the product of 0.25% and the number of full years to the Stated Maturity Date.

Unless otherwise specified above, the interest payable on each Interest Payment Date or the Maturity Date will be the amount of interest accrued from and including the Original Issue Date or from and including the last Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to, but excluding, such Interest Payment Date or the Maturity Date, as the case may be.

Unless otherwise specified above, the interest payable on any Interest Payment Date will be paid to the Holder on the Regular Record Date for such Interest Payment Date, which Regular Record Date shall be the fifteenth (15th) calendar day, whether or not a Business Day, immediately preceding the related Interest Payment Date; provided that, notwithstanding any provision of the Indenture to the contrary, interest payable on any Maturity Date shall be payable to the Person to whom principal shall be payable; and provided, further, that unless otherwise specified above, in the case of a Note initially issued between a Regular Record Date and the Interest Payment Date relating to such Regular Record Date, interest for the period beginning on the Original Issue Date and ending on such Interest Payment Date shall be paid on the Interest Payment Date following the next succeeding Regular Record Date to the Holder on such next succeeding Regular Record Date.

The Trust will make payments of principal of, and premium, if any, on the Maturity Date of this Note in immediately available funds against presentation and surrender hereof (and, in the case of any repayment on a Repayment Date, upon submission of a duly completed election form if and as required by the provisions described on the reverse hereof) at the office or agency maintained by the Trust for this purpose in the Borough of Manhattan, The City of New York. The Trust will make payments of interest and other amounts due and owing, if any, on the Maturity Date of this Note to the Person to whom payment of the principal hereof and premium, if any, hereon shall be made. The Trust will make payments of interest and other amounts due and owing, if any, on this Note on any Interest Payment Date other than the Maturity Date by check mailed to the Holder hereof. Notwithstanding the foregoing, the Paying Agent will make, or cause to be made, payments of interest and other amounts due and owing, if any, on this Note on any Interest Payment Date other than the Maturity Date to any Holder hereof of \$10,000,000 (or, if the Specified Currency is other than U.S. Dollars, the equivalent thereof in the particular Specified Currency) or more in aggregate principal amount of Notes (whether having identical or different terms and provisions) by wire transfer of immediately available funds if the Holder hereof has delivered appropriate wire transfer instructions in writing to the Indenture Trustee not less than 15 calendar days prior to the particular Interest Payment Date. Any wire transfer instructions received by the Indenture Trustee shall remain in effect until revoked by the Holder hereof.

Unless otherwise specified on the face hereof, the Holder hereof will not be obligated to pay any administrative costs imposed by banks in making payments in immediately available funds by the Trust. Unless otherwise specified on the face hereof, any tax assessment or governmental charge imposed upon payments hereunder, including, without limitation, any withholding tax, will be borne by the Holder hereof.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS NOTE SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

Unless the certificate of authentication hereon shall have been executed by the Indenture Trustee pursuant to the Indenture, this Note shall not be entitled to any benefit under such Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Trust has caused this instrument to be duly executed, by manual or facsimile signature.

THE PRINCIPAL LIFE INCOME FUNDINGS  
TRUST SPECIFIED ON THE FACE OF  
THIS NOTE

Dated: Original Issue Date

By: U.S. Bank Trust National  
Association, not in its individual  
capacity but solely as Trustee.

By: \_\_\_\_\_  
Authorized Officer

CERTIFICATE OF AUTHENTICATION

This is one of the Notes of the Principal Life Income Fundings Trust specified on the face of this Note referred to in the within-mentioned Indenture.

CITIBANK, N.A.  
As Indenture Trustee

Dated: Original Issue Date

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE FORM OF NOTE]

SECTION 1. GENERAL. This Note is one of a duly authorized issue of Notes of the Trust. The Notes are issued pursuant to the Indenture.

SECTION 2. CURRENCY.

(a) Unless specified otherwise on the face hereof, this Note is denominated in, and payments of principal, premium, if any, and/or interest, if any, will be made in U.S. Dollars. If specified as the Specified Currency, this Note may be denominated in, and payments of principal, premium, if any, and/or interest, if any, may be made in a single currency other than U.S. Dollars (a "Foreign Currency"). If this Note is denominated in a Foreign Currency, the Holder of this Note is required to pay for this Note in the Specified Currency.

(b) Unless specified otherwise on the face hereof, if this Note is denominated in a Foreign Currency, the Trust is obligated to make payments of principal of, and premium, if any, and interest, if any, on, this Note in the Specified Currency. Any amounts so payable by the Trust in the Specified Currency will be converted by the Exchange Rate Agent into U.S. Dollars for payment to the Holder hereof unless otherwise specified on the face of this Note or the Holder elects, in the manner described below, to receive these amounts in the Specified Currency. If this Note is denominated in a Foreign Currency, any U.S. Dollar amount to be received by the Holder hereof will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Business Day preceding the applicable payment date from three recognized foreign exchange dealers (one of whom may be the Exchange Rate Agent) selected by the Exchange Rate Agent and approved by the Trust for the purchase by the quoting dealer of the Specified Currency for U.S. Dollars for settlement on that payment date in the aggregate amount of the Specified Currency payable to all Holders of the Notes scheduled to receive U.S. Dollar payments and at which the applicable dealer commits to execute a contract. All currency exchange costs will be borne by the Holders of the Notes by deductions from any payments. If three bid quotations are not available, payments will be made in the Specified Currency. If this Note is denominated in a Foreign Currency, the Holder of this Note may elect to receive all or a specified portion of any payment of principal, premium, if any, and/or interest, if any, in the Specified Currency by submitting a written request to the Indenture Trustee at its Corporate Trust Office in The City of New York on or prior to the applicable Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be. This written request may be mailed or hand delivered or sent by cable, telex or other form of facsimile transmission. This election will remain in effect until revoked by written notice delivered to the Indenture Trustee on or prior to a Regular Record Date or at least 15 calendar days prior to the Maturity Date, as the case may be.

(c) The Trust will indemnify the Holder hereof against any loss incurred as a result of any judgment or order being given or made for any amount due under this Note and that judgment or order requiring payment in a currency (the "Judgment Currency") other than the Specified Currency, and as a result of any variation between: (i) the rate of exchange at which

the Specified Currency amount is converted into the Judgment Currency for the purpose of that judgment or order; and (ii) the rate of exchange at which the Holder, on the date of payment of that judgment or order, is able to purchase the Specified Currency with the amount of the Judgment Currency actually received.

(d) Unless otherwise specified on the face hereof, if payment hereon is required to be made in a Foreign Currency and such currency is unavailable due to the imposition of exchange controls or other circumstances beyond the Trust's control, then the Trust will be entitled to make payments with respect hereto in U.S. Dollars on the basis of the Market Exchange Rate (as hereinafter defined), computed by the Exchange Rate Agent, on the second Business Day prior to the particular payment or, if the Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

(e) The "Market Exchange Rate" for the Foreign Currency shall mean the noon dollar buying rate in The City of New York for cable transfers for the Foreign Currency as certified for customs purposes (or, if not so certified, as otherwise determined) by the Federal Reserve Bank of New York.

(f) All determinations made by the Exchange Rate Agent shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the Holder hereof.

(g) All costs of exchange in respect of this Note, if denominated in a Foreign Currency, will be borne by the Holder hereof.

SECTION 3. DETERMINATION OF INTEREST RATE AND CERTAIN OTHER TERMS.

(a) Fixed Rate Notes. If this Note is specified on the face hereof as a "Fixed Rate Note":

(i) This Note will bear interest at the rate per annum specified on the face hereof. Interest on this Note will be computed on the basis of a 360-day year of twelve 30-day months.

(ii) Unless otherwise specified on the face hereof, the Interest Payment Dates for this Note will be as follows:

INTEREST PAYMENT FREQUENCY	INTEREST PAYMENT DATES
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month this Note was issued.
Quarterly	Fifteenth day of every third calendar month, beginning in the third calendar month following the month this Note was issued.
Semi-annual	Fifteenth day of every sixth calendar month, beginning in the sixth calendar month following the month

this Note was issued.

Annual

Fifteenth day of every twelfth calendar month, beginning in the twelfth calendar month following the month this Note was issued.

(iii) If any Interest Payment Date or the Maturity Date of this Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and/or interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(b) Floating Rate Notes. If this Note is specified on the face hereof as a "Floating Rate Note":

(i) Interest Rate Basis. Interest on this Note will be determined by reference to the applicable Interest Rate Basis or Interest Rate Bases, which may, as described below, include the CD Rate, the CMT Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR, the Prime Rate or the Treasury Rate (each as defined below).

(ii) Effective Rate. The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on: (1) if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding that Interest Reset Date; or (2) if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

(iii) Spread; Spread Multiplier; Index Maturity. The "Spread" is the number of basis points (one one-hundredth of a percentage point) specified on the face hereof to be added to or subtracted from the related Interest Rate Basis or Interest Rate Bases applicable to this Note. The "Spread Multiplier" is the percentage specified on the face hereof of the related Interest Rate Basis or Interest Rate Bases applicable to this Note by which the Interest Rate Basis or Interest Rate Bases will be multiplied to determine the applicable interest rate. The "Index Maturity" is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Interest Rate Bases will be calculated.

(iv) Regular Floating Rate Note. Unless this Note is specified on the face hereof as a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, this Note (a "Regular Floating Rate Note") will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which interest on this Regular Floating Rate Note is payable will be reset as of each Interest Reset Date;

provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(v) Floating Rate/Fixed Rate Notes. If this Note is specified on the face hereof as a "Floating Rate/Fixed Rate Note", this Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any. Commencing on the first Interest Reset Date, the rate at which this Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that: (A) the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate specified on the face hereof; and (B) the interest rate in effect commencing on the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified on the face hereof, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

(vi) Inverse Floating Rate Notes. If this Note is specified on the face hereof as an "Inverse Floating Rate Note", this Note will bear interest at the Fixed Interest Rate minus the rate determined by reference to the applicable Interest Rate Basis or Interest Rate Bases: (1) plus or minus the applicable Spread, if any; and/or (2) multiplied by the applicable Spread Multiplier, if any; provided, however, that interest on this Inverse Floating Rate Note will not be less than zero. Commencing on the first Interest Reset Date, the rate at which interest on this Inverse Floating Rate Note is payable will be reset as of each Interest Reset Date; provided, however, that the interest rate in effect for the period, if any, from the Original Issue Date to the first Interest Reset Date will be the Initial Interest Rate.

(vii) Interest Reset Dates. The period between Interest Reset Dates will be the "Interest Reset Period." Unless otherwise specified on the face hereof, the Interest Reset Dates will be, in the case of this Floating Rate Note if by its terms it resets: (1) daily--each business day; (2) weekly--the Wednesday of each week, with the exception of any weekly reset Floating Rate Note as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week; (3) monthly--the fifteenth day of each calendar month, with the exception of any monthly reset Floating Rate Note as to which the Eleventh District Cost of Funds Rate is an applicable Interest Rate Basis, which will reset on the first calendar day of the month; (4) quarterly--the fifteenth day of March, June, September and December of each year; (5) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (6) annually--the fifteenth day of the month of each year specified on the face hereof; provided, however, that, with respect to a Floating Rate/Fixed Rate Note, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date. If any Interest Reset Date for this Floating Rate Note would otherwise be a day that is not a Business Day, the particular Interest Reset Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Business Day.



(viii) Interest Determination Dates. The interest rate applicable to a Floating Rate Note for an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular "Interest Determination Date", which will be: (1) with respect to the Commercial Paper Rate, Federal Funds Rate and the Prime Rate--the Business Day immediately preceding the related Interest Reset Date; (2) with respect to the CD Rate and the CMT Rate--the second Business Day preceding the related Interest Reset Date; (3) with respect to the Eleventh District Cost of Funds Rate--the last working day of the month immediately preceding the related Interest Reset Date on which the Federal Home Loan Bank of San Francisco publishes the Eleventh District Index (as defined below); (4) with respect to LIBOR and EURIBOR--the second London Banking Day (as defined below) preceding the related Interest Reset Date; and (5) with respect to the Treasury Rate--the day of the week in which the related Interest Reset Date falls on which day Treasury Bills (as defined below) are normally auctioned (i.e., Treasury Bills are normally sold at auction on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); provided, however, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday. The Interest Determination Date pertaining to a Floating Rate Note, the interest rate of which is determined with reference to two or more Interest Rate Bases, will be the latest Business Day which is at least two Business Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. "London Banking Day" means a day on which commercial banks are open for business (including dealings in the LIBOR Currency) in London.

(ix) Calculation Dates. The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR, EURIBOR and the Eleventh District Cost of Funds Rate, which will be determined on the particular Interest Determination Date. Upon request of the Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to such Floating Rate Note. The "Calculation Date", if applicable, pertaining to any Interest Determination Date will be the earlier of: (1) the tenth calendar day after the particular Interest Determination Date or, if such day is not a Business Day, the next succeeding Business Day; or (2) the Business Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

(x) Maximum or Minimum Interest Rate. If specified on the face hereof, this Note may have either or both of a Maximum Interest Rate or a Minimum Interest Rate. If a Maximum Interest Rate is so designated, the interest rate for a Floating Rate Note cannot ever exceed such Maximum Interest Rate and in the event that the interest rate on any Interest Reset Date would exceed such Maximum Interest Rate (as if no Maximum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Maximum Interest Rate. If a Minimum Interest Rate is so

designated, the interest rate for a Floating Rate Note cannot ever be less than such Minimum Interest Rate and in the event that the interest rate on any Interest Reset Date would be less than such Minimum Interest Rate (as if no Minimum Interest Rate were in effect) then the interest rate on such Interest Reset Date shall be the Minimum Interest Rate. Notwithstanding anything to the contrary contained herein, the interest rate on a Floating Rate Note shall not exceed the maximum interest rate permitted by applicable law.

(xi) Interest Payments. Unless otherwise specified on the face hereof, the Interest Payment Dates will be, in the case of a Floating Rate Note which resets: (1) daily, weekly or monthly--the fifteenth day of each calendar month or on the fifteenth day of March, June, September and December of each year, as specified on the face hereof; (2) quarterly--the fifteenth day of March, June, September and December of each year; (3) semi-annually--the fifteenth day of the two months of each year specified on the face hereof; and (4) annually--the fifteenth day of the month of each year as specified on the face hereof. In addition, the Maturity Date will also be an Interest Payment Date. If any Interest Payment Date other than the Maturity Date for this Floating Rate Note would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day, except that in the case of a Floating Rate Note as to which LIBOR is an applicable Interest Rate Basis and that Business Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Business Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Business Day, the Trust will make the required payment of principal, premium, if any, and interest or other amounts on the next succeeding Business Day, and no additional interest will accrue in respect of the payment made on that next succeeding Business Day.

(xii) Rounding. Unless otherwise specified on the face hereof, all percentages resulting from any calculation on this Floating Rate Note will be rounded to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards. All dollar amounts used in or resulting from any calculation on this Floating Rate Note will be rounded, in the case of U.S. Dollars, to the nearest cent or, in the case of a Foreign Currency, to the nearest unit (with one-half cent or unit being rounded upwards).

(xiii) Interest Factor. With respect to this Floating Rate Note, accrued interest is calculated by multiplying the principal amount of such Note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Reset Period. The interest factor for each day will be computed by dividing the interest rate applicable to such day by 360, in the case of a Floating Rate Note as to which the CD Rate, the Commercial Paper Rate, the Eleventh District Cost of Funds Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of a Floating Rate Note as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis. The interest factor for a Floating Rate Note as to which the interest rate is calculated with reference to two or more

Interest Rate Bases will be calculated in each period in the same manner as if only the applicable Interest Rate Basis specified above applied.

(xiv) Determination of Interest Rate Basis. The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions.

(A) CD Rate Notes. If the Interest Rate Basis is the CD Rate, this Note shall be deemed a "CD Rate Note." Unless otherwise specified on the face hereof, "CD Rate" means: (1) the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit having the Index Maturity specified on the face hereof as published in H.15(519) (as defined below) under the caption "CDs (secondary market)"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable United States dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update (as defined below), or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "CDs (secondary market)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable United States dollar certificates of deposit in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for negotiable United States dollar certificates of deposit of major United States money market banks for negotiable United States certificates of deposit with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate in effect on the particular Interest Determination Date. "H.15(519)" means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System. "H.15 Daily Update" means the daily update of H.15(519), available through the world-wide-web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15/update>, or any successor site or publication.

(B) CMT Rate Notes. If the Interest Rate Basis is the CMT Rate, this Note shall be deemed a "CMT Rate Note." Unless otherwise specified on the face hereof, "CMT Rate" means:

(1) if CMT Moneyline Telerate Page 7051 is specified on the face hereof:

- i. the percentage equal to the yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) on page 7051 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7051"), for the particular Interest Determination Date; or
- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7051, the percentage equal to the yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519); or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the purchasing agent or its affiliates) (each, a "Reference Dealer") selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular

Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or

- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
  - vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
  - viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date; or
- (2) if CMT Moneyline Telerate Page 7052 is specified on the face hereof:
- i. the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the Index Maturity specified on the face hereof as published in H.15(519) opposite the caption "Treasury Constant Maturities", as the yield is displayed on Moneyline Telerate (or any successor service) (on page 7052 or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7052"), for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or

- ii. if the rate referred to in clause (i) does not so appear on Moneyline Telerate Page 7052, the percentage equal to the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity and for the week or month, as applicable, preceding the particular Interest Determination Date as published in H.15(519) opposite the caption "Treasury Constant Maturities"; or
- iii. if the rate referred to in clause (ii) does not so appear in H.15(519), the one-week or one-month, as specified on the face hereof, average yield for United States Treasury securities at "constant maturity" having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week or month, as applicable, ended immediately preceding the week or month, as applicable, in which the particular Interest Determination Date falls; or
- iv. if the rate referred to in clause (iii) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time; or
- v. if fewer than five but more than two of the prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated; or
- vi. if fewer than three prices referred to in clause (iv) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on

that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time; or

- vii. if fewer than five but more than two prices referred to in clause (vi) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated; or
- viii. if fewer than three prices referred to in clause (vi) are provided as requested, the CMT Rate in effect on that Interest Determination Date.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified on the face hereof have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

(C) Commercial Paper Rate Notes. If the Interest Rate Basis is the Commercial Paper Rate, this Note shall be deemed a "Commercial Paper Rate Note." Unless otherwise specified on the face hereof, "Commercial Paper Rate" means: (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified on the face hereof as published in H.15(519) under the caption "Commercial Paper--Nonfinancial"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Commercial Paper--Nonfinancial"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Money Market Yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of United States dollar commercial paper in The City of New

York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent for commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is "Aa", or the equivalent, from a nationally recognized statistical rating organization; or (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date. "Money Market Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(D) Eleventh District Cost of Funds Rate Notes. If the Interest Rate Basis is the Eleventh District Cost of Funds Rate, this Note shall be deemed an "Eleventh District Cost of Funds Rate Note." Unless otherwise specified on the face hereof, "Eleventh District Cost of Funds Rate" means: (1) the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which the particular Interest Determination Date falls as set forth under the caption "11th District" on the display on Moneyline Telerate (or any successor service) on page 7058 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 7058") as of 11:00 A.M., San Francisco time, on that Interest Determination Date; or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 7058, the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank District that was most recently announced (the "Eleventh District Index") by the Federal Home Loan Bank of San Francisco as the cost of funds for the calendar month immediately preceding that Interest Determination Date; or (3) if the Federal Home Loan Bank of San Francisco fails to announce the Eleventh District Index on or prior to the particular Interest Determination Date for the calendar month immediately preceding that Interest Determination Date, the Eleventh District Cost of Funds Rate in effect on the particular Interest Determination Date.

(E) Federal Funds Rate Notes. If the Interest Rate Basis is the Federal Funds Rate, this Note shall be deemed a "Federal Funds Rate Note." Unless otherwise specified on the face hereof, "Federal Funds Rate" means: (1) the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15(519) under the caption "Federal Funds (Effective)" and displayed on Moneyline Telerate (or any successor service) on page 120 (or any other page as may replace the specified page on that service) ("Moneyline Telerate Page 120"); or (2) if the rate referred to in clause (1) does not so appear on Moneyline Telerate Page 120 or is not so published by 3:00 P.M., New York



City time, on the related Calculation Date, the rate on the particular Interest Determination Date for United States dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Federal Funds (Effective)"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight United States dollar federal funds arranged by three leading brokers of United States dollar federal funds transactions in The City of New York (which may include the purchasing agent or its affiliates) selected by the Calculation Agent prior to 9:00 A.M., New York City time, on that Interest Determination Date; or (4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate in effect on the particular Interest Determination Date.

(F) LIBOR Notes. If the Interest Rate Basis is LIBOR, this Note shall be deemed a "LIBOR Note." Unless otherwise specified on the face hereof, "LIBOR" means: (1) if "LIBOR Moneyline Telerate" is specified on the face hereof or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the rate for deposits in the LIBOR Currency (as defined below) having the Index Maturity specified on the face hereof, commencing on the related Interest Reset Date, that appears on the LIBOR Page (as defined below) as of 11:00 A.M., London time, on the particular Interest Determination Date; or (2) if "LIBOR Reuters" is specified on the face hereof, the arithmetic mean of the offered rates, calculated by the Calculation Agent, or the offered rate, if the LIBOR Page by its terms provides only for a single rate, for deposits in the LIBOR Currency having the particular Index Maturity, commencing on the related Interest Reset Date, that appear or appears, as the case may be, on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date; or (3) if fewer than two offered rates appear, or no rate appears, as the case may be, on the particular Interest Determination Date on the LIBOR Page as specified in clause (1) or (2), as applicable, the rate calculated by the Calculation Agent of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major reference banks (which may include affiliates of the purchasing agent) in the London interbank market to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (4) if fewer than two offered quotations referred to in clause (3) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in that principal financial center selected by the Calculation Agent for loans in the

LIBOR Currency to leading European banks, having the particular Index Maturity and in a principal amount that is representative for a single transaction in the LIBOR Currency in that market at that time; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), LIBOR in effect on the particular Interest Determination Date. "LIBOR Currency" means the currency specified on the face hereof as to which LIBOR shall be calculated or, if no currency is specified on the face hereof, United States dollars. "LIBOR Page" means either: (1) if "LIBOR Reuters" is specified on the face hereof, the display on the Reuter Monitor Money Rates Service (or any successor service) on the page specified on the face hereof (or any other page as may replace that page on that service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency; or (2) if "LIBOR Moneyline Telerate" is specified on the face hereof or neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified on the face hereof as the method for calculating LIBOR, the display on Moneyline Telerate (or any successor service) on the page specified on the face hereof (or any other page as may replace such page on such service) for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

(G) EURIBOR Notes. If the Interest Rate Basis is EURIBOR, this Note shall be deemed a "EURIBOR Note." Unless otherwise specified on the face hereof, "EURIBOR" means: (1) with respect to any Interest Determination Date relating to this EURIBOR Note (a "EURIBOR Interest Determination Date"), the rate for deposits in euros as sponsored, calculated and published jointly by the European Banking Federation and ACI - The Financial Market Association, or any company established by the joint sponsors for purposes of compiling and publishing those rates, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, as the rate appears on Moneyline Telerate or any successor service, on page 248 (or any other page as may replace that specified page on the service) ("Moneyline Telerate Page 248") as of 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date; or (2) if such rate does not appear on Moneyline Telerate Page 248, or is not so published by 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date, such rate will be calculated by the Calculation Agent and will be the arithmetic mean of at least two quotations obtained by the Calculation Agent after requesting the principal Euro-zone (as defined below) offices of four major banks in the Euro-zone interbank market to provide the Calculation Agent with its offered quotation for deposits in euros for the period of the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on the applicable EURIBOR Interest Determination Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euro in the market at that time; or (3) if fewer than two such quotations are so provided, the rate on the applicable EURIBOR Interest Determination Date will be calculated by the Calculation Agent and will be the arithmetic mean of the rates quoted at

approximately 11:00 A.M., Brussels time, on such EURIBOR Interest Determination Date by four major banks in the Euro-zone for loans in euro to leading European banks, having the Index Maturity specified on the face hereof, commencing on the applicable Interest Reset Date and in a principal amount not less than the equivalent of \$1 million in euros that is representative for a single transaction in euros in the market at that time; or (4) if the banks so selected by the Calculation Agent are not quoting as mentioned above, EURIBOR will be EURIBOR in effect on the applicable EURIBOR Interest Determination Date. "Euro-zone" means the region comprised of member states of the European Union that have adopted the single currency in accordance with the treaty establishing the European Community, as amended by the treaty on European Union.

(H) Prime Rate Notes. If the Interest Rate Basis is the Prime Rate, this Note shall be deemed a "Prime Rate Note." Unless otherwise specified on the face hereof, "Prime Rate" means: (1) the rate on the particular Interest Determination Date as published in H.15(519) under the caption "Bank Prime Loan"; or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption "Bank Prime Loan", or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters Screen US PRIME 1 Page (as defined below) as the applicable bank's prime rate or base lending rate as of 11:00 A.M., New York City time, on that Interest Determination Date; or (4) if fewer than four rates referred to in clause (3) are so published by 3:00 p.m., New York City time, on the related Calculation Date, the rate calculated by the Calculation Agent as the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on that Interest Determination Date by three major banks (which may include affiliates of the purchasing agent) in The City of New York selected by the Calculation Agent; or (5) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (4), the Prime Rate in effect on the particular Interest Determination Date. "Reuters Screen US PRIME 1 Page" means the display on the Reuter Monitor Money Rates Service (or any successor service) on the "US PRIME 1" page (or any other page as may replace that page on that service) for the purpose of displaying prime rates or base lending rates of major United States banks.

(I) Treasury Rate Notes. If the Interest Rate Basis is the Treasury Rate, this Note shall be deemed a "Treasury Rate Note." Unless otherwise specified on the face

hereof, "Treasury Rate" means: (1) the rate from the auction held on the Interest Determination Date (the "Auction") of direct obligations of the United States ("Treasury Bills") having the Index Maturity specified on the face hereof under the caption "INVESTMENT RATE" on the display on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 56") or page 57 (or any other page as may replace that page on that service) ("Moneyline Telerate Page 57"); or (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Auction High"; or (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury; or (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (5) if the rate referred to in clause (4) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption "U.S. Government Securities/Treasury Bills/Secondary Market"; or (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the purchasing agent or its affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified on the face hereof; or (7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date. "Bond Equivalent Yield" means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the

case may be, and "M" refers to the actual number of days in the applicable Interest Reset Period.

(c) Discount Notes. If this Note is specified on the face hereof as a "Discount Note":

(i) Principal and Interest. This Note will bear interest in the same manner as set forth in Section 3(a) above, and payments of principal and interest shall be made as set forth on the face hereof. Discount Notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the "Discount".

(ii) Redemption; Repayment; Acceleration. In the event a Discount Note is redeemed, repaid or accelerated, the amount payable to the Holder of such Discount Note will be equal to the sum of: (A) the Issue Price (increased by any accruals of Discount) and, in the event of any redemption of such Discount Note, if applicable, multiplied by the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable); and (B) any unpaid interest accrued on such Discount Note to the Maturity Date ("Amortized Face Amount"). Unless otherwise specified on the face hereof, for purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the applicable Discount Note and an assumption that the maturity of such Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the "Initial Period") is shorter than the compounding period for such Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided above.

(d) Amortizing Notes. If this Note is specified on the face hereof as an "Amortizing Note", this Note will bear interest in the same manner as set forth in Section 3(a) above, and payments on principal, premium, if any, and interest will be made as set forth on the face hereof and/or in accordance with Schedule I attached hereto. The Trust will make payments combining principal, premium (if any) and interest, if applicable, on the dates and in the amounts set forth in the table appearing in Schedule I, attached to this Note or in accordance with the formula specified on the face hereof. Payments made hereon will be applied first to interest due and payable hereon and then to the reduction of the unpaid principal amount hereof.

SECTION 4. REDEMPTION. If no redemption right is set forth on the face hereof, this Note may not be redeemed prior to the Stated Maturity Date, except as set forth in the Indenture or in Section 10 hereof. In the case of a Note that is not a Discount Note, if a redemption right is set forth on the face of this Note, the Trust shall elect to redeem this Note on the Interest Payment

Date after the Initial Redemption Date set forth on the face hereof on which the Funding Agreement is to be redeemed in whole or in part by Principal Life Insurance Company ("Principal Life") (each, a "Redemption Date"), in which case this Note must be redeemed on such Redemption Date in whole or in part, as applicable, prior to the Stated Maturity Date, in increments of \$1,000 at the applicable Redemption Price (as defined below), together with unpaid interest, if any, accrued thereon to, but excluding, the applicable Redemption Date. "Redemption Price" shall mean an amount equal to the Initial Redemption Percentage (as adjusted by the Annual Redemption Percentage Reduction, if applicable) multiplied by the unpaid Principal Amount of this Note to be redeemed. The unpaid Principal Amount of this Note to be redeemed shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount of the Funding Agreement to be redeemed by Principal Life by (B) the outstanding principal amount of the Funding Agreement. The Initial Redemption Percentage, if any, applicable to this Note shall decline at each anniversary of the Initial Redemption Date by an amount equal to the applicable Annual Redemption Percentage Reduction, if any, until the Redemption Price is equal to 100% of the unpaid amount thereof to be redeemed. Notice must be given not more than sixty (60) nor less than thirty (30) calendar days prior to the proposed Redemption Date. In the event of redemption of this Note in part only, a new Note for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the surrender hereof. If less than all of this Note is redeemed, the Indenture Trustee will select by lot or, in its discretion, on a pro rata basis, the amount of the interest of each direct participant in the Trust to be redeemed.

SECTION 5. SINKING FUNDS AND AMORTIZING NOTES. Unless specified on the face hereof, this Note will not be subject to, or entitled to the benefit of, any sinking fund. If this Note is an Amortizing Note, this Note may pay an amount in respect of both interest and principal amortized over the life of this Note.

SECTION 6. REPAYMENT. If no repayment right is set forth on the face hereof, this Note may not be repaid at the option of the Holder hereof prior to the Stated Maturity Date. If a repayment right is granted on the face of this Note, this Note may be subject to repayment at the option of the Holder on any Interest Payment Date on and after the date, if any, indicated on the face hereof (each, a "Repayment Date"). On any Repayment Date, unless otherwise specified on the face hereof, this Note shall be repayable in whole or in part in increments of \$1,000 at the option of the Holder hereof at a repayment price equal to 100% of the Principal Amount to be repaid, together with interest thereon payable to the Repayment Date. For this Note to be repaid in whole or in part at the option of the Holder hereof, this Note must be received by the Indenture Trustee, with the form entitled "Option to Elect Repayment", below, duly completed by the Indenture Trustee. Exercise of such repayment option by the Holder hereof shall be irrevocable.

SECTION 7. MODIFICATIONS AND WAIVERS. The Indenture contains provisions permitting the Trust and the Indenture Trustee (1) at any time and from time to time without notice to, or the consent of, the Holders of any Notes issued under the Indenture to enter into one or more supplemental indentures for certain enumerated purposes and (2) with the consent of the Holders of a majority in aggregate principal amount of the Outstanding Notes affected thereby, to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture or of modifying in any manner the rights of Holders of Notes under the Indenture; provided, that, with respect to

certain enumerated provisions, no such supplemental indenture shall be entered into without the consent of the Holder of each Note affected thereby. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note or such other Notes.

SECTION 8. OBLIGATIONS UNCONDITIONAL. No reference herein to the Indenture and no provisions of this Note or of the Indenture shall impair the right of each Holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, and premium, if any, on, such Note on the respective Stated Maturity Date or redemption date thereof and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9. EVENTS OF DEFAULT. If an Event of Default with respect to this Note shall occur and be continuing, the principal of, and all other amounts payable on, the Notes may be declared due and payable, or may be automatically accelerated, as the case may be, in the manner and with the effect provided in the Indenture. In the event that this Note is a Discount Note, the amount of principal of this Note that becomes due and payable upon such acceleration shall be equal to the amount calculated as set forth in Section 3(c) hereof.

SECTION 10. WITHHOLDING; TAX EVENT AND REDEMPTION. All amounts due on this Note will be made without any applicable withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of any governmental authority, unless such withholding or deduction is required by law. Unless otherwise specified on the face hereof, the Trust will not pay any additional amounts to the Holder of this Note in respect of such withholding or deduction, any such withholding or deduction will not give rise to an event of default or any independent right or obligation to redeem this Note and the Holder will be deemed for all purposes to have received cash in an amount equal to the portion of such withholding or deduction that is attributable to such Holder's interest in this Note as equitably determined by the Trust.

If (1) a Tax Event (defined below) as to the Funding Agreement occurs and (2) Principal Life redeems the Funding Agreement in whole or in part, the Trust will redeem the Notes, subject to the terms and conditions of Section 2.04 of the Indenture, at the Tax Event Redemption Price (defined below) together with unpaid interest accrued thereon to the applicable redemption date. "Tax Event" means that Principal Life shall have received an opinion of independent legal counsel stating in effect that as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein or (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any governmental authority in the United States, which amendment or change is enacted, promulgated, issued or announced on or after the effective date of the Funding Agreement, there is more than an insubstantial risk that (i) the Trust is, or will be within ninety (90) days of the date thereof, subject to U.S. federal income tax with respect to interest accrued or received on the Funding Agreement or (ii) the Trust is, or will be within ninety (90) days of the date thereof,

subject to more than a de minimis amount of taxes, duties or other governmental charges. "Tax Event Redemption Price" means an amount equal to the unpaid principal amount of this Note to be redeemed, which shall be determined by multiplying (1) the Outstanding Principal Amount of this Note by (2) the quotient derived by dividing (A) the outstanding principal amount to be redeemed by Principal Life of the Funding Agreement by (B) the outstanding principal amount of the Funding Agreement.

SECTION 11. LISTING. Unless otherwise specified on the face hereof, this Note will not be listed on any securities exchange.

SECTION 12. COLLATERAL. The Collateral for this Note includes the Funding Agreement and the Guarantee specified on the face hereof.

SECTION 13. NO RECOURSE AGAINST CERTAIN PERSONS. No recourse shall be had for the payment of any principal, interest or any other sums at any time owing under the terms of this Note, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture or any indenture supplemental thereto, against the Nonrecourse Parties, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such personal liability being, by the acceptance hereof and as part of the consideration for issue hereof, expressly waived and released.

SECTION 14. MISCELLANEOUS.

(a) This Note is issuable only as a registered Note without coupons in denominations of \$1,000 and any integral multiple in excess thereof unless otherwise specified on the face of this Note.

(b) Prior to due presentment for registration of transfer of this Note, the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, and any other agent of the Trust or the Indenture Trustee may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note shall be overdue, and none of the Trust, the Indenture Trustee, the Registrar, the Paying Agent, any Agent, or any other agent of the Trust or the Indenture Trustee shall be affected by notice to the contrary.

(c) The Notes are being issued by means of physical distribution of Notes to be made as provided in the Indenture. The Register maintained by the Registrar will evidence ownership of the Notes, with transfers of ownership effected on the Register and through the Transfer Agent. Transfer of principal, premium (if any) and interest (if any) to the Holder will be the responsibility of the Paying Agent. The selection of any Notes to be redeemed or repaid will be determined by the Indenture Trustee pursuant to the Indenture.

(d) This Note or portion hereof may not be exchanged for Global Notes. No service charge will be made for any registration of transfer or exchange, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.



SECTION 15. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

A-3-26

OPTION TO ELECT REPAYMENT

The undersigned hereby irrevocably request(s) and instruct(s) the Trust to repay this Note (or portion hereof specified below) pursuant to its terms at a price equal to the Principal Amount hereof together with interest to the repayment date, to the undersigned, at:

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address of the undersigned).

For this Note to be repaid, the Indenture Trustee (or the Paying Agent on behalf of the Indenture Trustee) must receive at its Corporate Trust Office, or at such other place or places of which the Trust shall from time to time notify the Holder of this Note, not more than sixty (60) nor less than thirty (30) days prior to a Repayment Date, if any, shown on the face of this Note, this Note with this "Option to Elect Repayment" form duly completed.

If less than the entire Principal Amount of this Note is to be repaid, specify the portion hereof (which shall be in increments of \$1,000) which the Holder elects to have repaid and specify the denomination or denominations (which shall be \$\_\_\_\_\_ or an integral multiple of \$1,000 in excess of \$\_\_\_\_\_) of the Notes to be issued to the Holder for the portion of this Note not being repaid (in the absence of any such specification, one such Note will be issued for the portion not being repaid).

\$ \_\_\_\_\_

DATE: \_\_\_\_\_

Principal Amount to be repaid, if amount to be repaid is less than the Principal Amount of Note (Principal Amount remaining must be an authorized denomination)

\$ \_\_\_\_\_

NOTICE: The signature on this Option to Elect Repayment must correspond with the name as written upon the face of this Note in every particular, without alteration or enlargement or any change whatever.

Fill in for registration of Notes if to be issued otherwise than this to the registered Holder:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

(Please print name and address including zip code)

SOCIAL SECURITY OR OTHER TAXPAYER ID NUMBER: \_\_\_\_\_

SCHEDULE I  
AMORTIZATION TABLE OR FORMULA

A-3-28

EXHIBIT D  
Pricing Supplement

[INSTITUTIONAL PRICING SUPPLEMENT]

Filed pursuant to Rule 424(b)( )  
Registration Statement Nos. 333-110499 and  
333-110499-01

Pricing Supplement No. \_\_\_\_\_ Dated \_\_\_\_\_, 200\_  
(To Prospectus dated \_\_\_\_\_, 200\_, and  
Prospectus Supplement dated \_\_\_\_\_, 200\_)

CUSIP: \_\_\_\_\_

[PRINCIPAL FINANCIAL GROUP LOGO]

PRINCIPAL LIFE INSURANCE COMPANY  
SECURED MEDIUM-TERM NOTES  
ISSUED THROUGH  
PRINCIPAL LIFE INCOME FUNDINGS TRUST o (THE "TRUST")

The description of this pricing supplement of the particular terms of the Secured Medium-Term Notes offered hereby, and the Funding Agreement (specified below) issued by Principal Life Insurance Company ("Principal Life") to the Trust, the payment obligations of which are fully and unconditionally guaranteed by the Guarantee (specified below) issued by Principal Financial Group, Inc. to the Trust, supplements the description of the general terms and provisions of the notes, the funding agreements and the guarantees set forth in the accompanying prospectus and prospectus supplement, to which reference is hereby made.

1. THE NOTES

-----  
Principal Amount: Purchasing Agent(s) Discount:  
Issue Price: Original Issue Date:  
Net Proceeds to the Trust: Stated Maturity Date:  
-----

Specified Currency:

Interest Payment Dates:

Initial Interest Payment Date:

Regular Record Date: [15 calendar days prior to the Interest Payment Date]

Type of Interest Rate: [ ] Fixed Rate [ ] Floating Rate

Fixed Rate Notes: [ ] Yes [ ] No. If, Yes,

Interest Rate:

Floating Rate Notes: [ ] Yes [ ] No. If, Yes,

Regular Floating Rate Notes:  Yes  No. If, Yes,  
Interest Rate:  
Interest Rate Basis(es):

Floating Rate/Fixed Rate Note:  Yes  No. If, Yes,  
Floating Interest Rate:  
Interest Rate Basis(es):  
Fixed Interest Rate:  
Fixed Rate Commencement Date:

Inverse Floating Rate Note:  Yes  No. If, Yes,  
Fixed Interest Rate:  
Floating Interest Rate:  
Interest Rate Basis(es):

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Rate Basis(es). Check all that apply:

<input type="checkbox"/> CD Rate	<input type="checkbox"/> Commercial Paper Rate
<input type="checkbox"/> CMT Rate	<input type="checkbox"/> Eleventh District Cost of Funds Rate
<input type="checkbox"/> LIBOR	<input type="checkbox"/> Federal Funds Rate
<input type="checkbox"/> EURIBOR	<input type="checkbox"/> Treasury Rate
<input type="checkbox"/> Prime Rate	<input type="checkbox"/> Other (See Attached)

If LIBOR:  LIBOR Reuters Page  LIBOR Moneyline Telerate Page  
LIBOR Currency:

If CMT Rate:  
Designated CMT Telerate Page:  
If 7052:  Weekly Average  Monthly Average  
Designated CMT Maturity Index:

Index Maturity:

Spread (+/-):

Spread Multiplier:

Interest Reset Date(s):

Interest Rate Determination Date(s):

Maximum Interest Rate, if any:

Minimum Interest Rate, if any;

Calculation Agent: [Citibank, N.A.]

Exchange Rate Agent:

Computation of Interest (not applicable unless different than as specified in the prospectus and prospectus supplement):

Day Count Convention (not applicable unless different than as specified in the prospectus and prospectus supplement):

Amortizing Note:  Yes  No. If, Yes,  
Amortizing Schedule:  
Additional/Other Terms:



2. THE FUNDING AGREEMENT

Funding Agreement Issuer: Principal Life Insurance Company

Funding Agreement No.:

Deposit:

Net Deposit:

Effective Date:

Stated Maturity Date:

Specified Currency:

Interest Payment Dates:

Initial Interest Payment Date:

Type of Interest Rate:  Fixed Rate  Floating Rate

Fixed Rate Funding Agreement:  Yes  No. If, Yes,

Interest Rate:

Floating Rate Funding Agreement:  Yes  No. If, Yes,

Regular Floating Rate Funding Agreement:  Yes  No. If, Yes,

Interest Rate:

Interest Rate Basis(es):

Floating Rate/Fixed Rate Funding Agreement:  Yes  No. If, Yes,

Floating Interest Rate:

Interest Rate Basis(es):

Fixed Interest Rate:

Fixed Rate Commencement Date:

Inverse Floating Rate Funding Agreement:  Yes  No. If, Yes,

Fixed Interest Rate:

Floating Interest Rate:

Interest Rate Basis(es):

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Rate Basis(es). Check all that apply:

- |                                     |   |
|-------------------------------------|---|
| <input type="checkbox"/> CD Rate    | <input type="checkbox"/> Commercial Paper Rate                |
| <input type="checkbox"/> CMT Rate   | <input type="checkbox"/> Eleventh District Cost of Funds Rate |
| <input type="checkbox"/> LIBOR      | <input type="checkbox"/> Federal Funds Rate                   |
| <input type="checkbox"/> EURIBOR    | <input type="checkbox"/> Treasury Rate                        |
| <input type="checkbox"/> Prime Rate | <input type="checkbox"/> Other (See Attached)                 |

If LIBOR:  LIBOR Reuters Page  LIBOR Moneyline Telerate  
LIBOR Currency: Page

If CMT Rate:

Designated CMT Telerate Page:

If 7052:  Weekly Average  Monthly Average

Designated CMT Maturity Index:

Index Maturity:

Spread (+/-):

Spread Multiplier:



Interest Reset Date(s):

Interest Rate Determination Date(s):

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Computation of Interest (not applicable unless different than as specified in the prospectus and prospectus supplement):

Day Count Convention (not applicable unless different than as specified in the prospectus and prospectus supplement):

Amortizing Funding Agreement:  Yes  No. If, Yes,  
Amortizing Schedule:  
Additional/Other Terms:

Discount Funding Agreement:  Yes  No. If, Yes,  
Total Amount of Discount:

Initial Accrual Period of Discount:  
Additional/Other Terms:

Redemption Provisions:  Yes  No. If, Yes,  
Initial Redemption Date:  
Initial Redemption Percentage:  
Annual Redemption Percentage Reduction (if any):  
Redemption:  In whole only and not in part  
 May be in whole or in part  
Additional/Other Terms:

Repayment:  Yes  No. If, Yes,  
Repayment Date(s):  
Repayment Price:  
Repayment:  In whole only and not in part  
 May be in whole or in part  
Additional/Other Terms:

Sinking Fund (not applicable unless specified):

Additional Amounts to be Paid For Withholding Tax (not applicable unless specified):

Ratings:

The Funding Agreement issued under the Program is rated \_\_\_\_\_ by S&P. Principal Life expects the Funding Agreement to be rated \_\_\_\_\_ by Moody's.

Additional/Other Terms:

Special Tax Considerations:

### 3. THE GUARANTEE

Guarantee Issuer: Principal Financial Group, Inc.

Guarantee No:

Effective Date:

Additional/Other Terms:

Pricing Supplement No. \_\_\_\_\_ Dated \_\_\_\_\_, 200\_  
(To Prospectus dated \_\_\_\_\_, 200\_, and  
Prospectus Supplement dated \_\_\_\_\_, 200\_)

CUSIP: \_\_\_\_\_

[PRINCIPAL FINANCIAL GROUP LOGO]

PRINCIPAL LIFE INSURANCE COMPANY  
PRINCIPAL(R) LIFE CORENOTES(R)  
ISSUED THROUGH  
PRINCIPAL LIFE INCOME FUNDINGS TRUST o (THE "TRUST")

The description of this pricing supplement of the particular terms of the Principal(R) Life CoreNotes(R) offered hereby, and the Funding Agreement (specified below) issued by Principal Life Insurance Company ("Principal Life") to the Trust, the payment obligations of which are fully and unconditionally guaranteed by the Guarantee (specified below) issued by Principal Financial Group, Inc. to the Trust, supplements the description of the general terms and provisions of the notes, the funding agreements and the guarantees set forth in the accompanying prospectus and prospectus supplement, to which reference is hereby made.

1. THE NOTES

-----  
Principal Amount: Purchasing Agent(s) Discount:  
Issue Price: Original Issue Date:  
Net Proceeds to the Trust: Stated Maturity Date:  
-----

Interest Payment Dates:

Initial Interest Payment Date:

Regular Record Date: [15 calendar days prior to the Interest Payment Date]

Type of Interest Rate: [ ] Fixed Rate [ ] Floating Rate

Fixed Rate Notes: [ ] Yes [ ] No. If, Yes,

Interest Rate:

Floating Rate Notes: [ ] Yes [ ] No. If, Yes,

Regular Floating Rate Notes: [ ] Yes [ ] No. If, Yes,

Interest Rate:

Interest Rate Basis(es):

Floating Rate/Fixed Rate Note: [ ] Yes [ ] No. If, Yes,

Floating Interest Rate:

Interest Rate Basis(es):

Fixed Interest Rate:

Fixed Rate Commencement Date:

- - - - -

"Principal(R)" is a registered service mark of Principal Financial Services, Inc. and is used under license.

"CoreNotes(R)" is a registered service mark of Merrill Lynch & Co.

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Rate Basis(es). Check all that apply:

- CD Rate
- Commercial Paper Rate
- Treasury Rate
- Other (See Attached)
- CMT Rate
- LIBOR
- Prime Rate

If LIBOR:  LIBOR Reuters Page  LIBOR Moneyline Telerate  
LIBOR Currency: Page

If CMT Rate:

Designated CMT Telerate Page:  
If 7052:  Weekly Average  Monthly Average  
Designated CMT Maturity Index:

Index Maturity:

Spread (+/-):

Spread Multiplier:

Interest Reset Date(s):

Interest Rate Determination Date(s):

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Calculation Agent: [Citibank, N.A.]

Computation of Interest (not applicable unless different than as specified in the prospectus and prospectus supplement):

Day Count Convention (not applicable unless different than as specified in the prospectus and prospectus supplement):

Discount Note:  Yes  No. If, Yes,

Total Amount of Discount:  
Initial Accrual Period of Discount:  
Additional/Other Terms:

Terms of Survivor's Option:

- Annual Put Limitation:  \$2,000,000 or 2%; or  \$\_\_\_\_\_ or \_\_\_%
- Individual Put Limitation:  \$250,000; or  \$\_\_\_\_\_
- Trust Put Limitation:  \_\_\_\_\_



Net Deposit:

Effective Date:

Stated Maturity Date:

Interest Payment Dates:

Initial Interest Payment Date:

Type of Interest Rate:  Fixed Rate  Floating Rate

Fixed Rate Funding Agreement:  Yes  No. If, Yes,

Interest Rate:

Floating Rate Funding Agreement:  Yes  No. If, Yes,

Regular Floating Rate Funding Agreement:  Yes  No. If, Yes,

Interest Rate:

Interest Rate Basis(es):

Floating Rate/Fixed Rate Funding Agreement:  Yes  No. If, Yes,

Floating Interest Rate:

Interest Rate Basis(es):

Fixed Interest Rate:

Fixed Rate Commencement Date:

Initial Interest Rate, if any:

Initial Interest Reset Date:

Interest Rate Basis(es). Check all that apply:

CD Rate

CMT Rate

Commercial Paper Rate

LIBOR

Treasury Rate

Prime Rate

Other (See Attached)

If LIBOR:  LIBOR Reuters Page  LIBOR Moneyline

LIBOR Currency:

Telerate Page

If CMT Rate:

Designated CMT Telerate Page:

If 7052:  Weekly Average  Monthly Average

Designated CMT Maturity Index:

Index Maturity:

Spread (+/-):

Spread Multiplier:

Interest Reset Date(s):

Interest Rate Determination Date(s):

Maximum Interest Rate, if any:

Minimum Interest Rate, if any:

Computation of Interest (not applicable unless different than as specified in the prospectus and prospectus supplement):

Day Count Convention (not applicable unless different than as specified in the prospectus and prospectus supplement):

Discount Funding Agreement:  Yes  No. If, Yes,

Total Amount of Discount:

Initial Accrual Period of Discount:  
Additional/Other Terms:

Terms of Survivor's Option:

Annual Put Limitation: [ ] \$2,000,000 or 2%; or  
[ ] \$\_\_\_\_\_ or \_\_\_\_%  
Individual Put Limitation: [ ] \$250,000; or  
[ ] \$  
Trust Put Limitation: [ ] \_\_\_\_\_

Redemption: [ ] Yes [ ] No. If, Yes,

Initial Redemption Dates:

Redemption: [ ] In whole only and not in part  
[ ] May be in whole or in part

Additional/Other Terms:

Repayment: [ ] Yes [ ] No. If, Yes,

Repayment Date(s):

Repayment Price:

Repayment: [ ] In whole only and not in part  
[ ] May be in whole or in part

Additional/Other Terms:

Sinking Fund (not applicable unless specified):

Ratings:

The Funding Agreement issued under the Program is rated \_\_\_\_\_ by  
S&P. Principal Life expects the Funding Agreement to be rated  
\_\_\_\_\_ by Moody's.

Additional/Other Terms:

Special Tax Considerations:

3. THE GUARANTEE

Guarantee Issuer: Principal Financial Group, Inc.

Guarantee No:

Effective Date:

Additional/Other Terms:

EXHIBIT E  
Principal Life Insurance Company

Officer's Certificate

The undersigned, an officer of Principal Life Insurance Company, an Iowa stock life insurance company ("Principal Life"), does hereby certify to Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., in such capacity and on behalf of Principal Life, to the knowledge of the undersigned and after reasonable inquiry, that:

1. each of the representations and warranties of Principal Life contained in each Expense and Indemnity Agreement entered into in connection with the Registration Statement (defined below), and each Funding Agreement issued in connection with the Program (the "Specified Agreements") (other than any representation or warranty expressly made as of a date prior to the date hereof) are true and correct on and as of the date hereof, with the same effect as though such representation or warranty had been made on and as of the date hereof;
2. no default under any of the Specified Agreements and no event or any condition which, with notice or lapse of time or both, would become a default, has occurred and is continuing as of the date hereof;
3. Principal Life has performed and complied with, respectively, in all material respects, all of the agreements, covenants, obligations and conditions applicable to Principal Life required by the Specified Agreements to be performed or complied with by Principal Life on or before the date hereof;
4. the Registration Statement filed on Form S-3 (File Nos. 333-110499 and 333-110499-01) (the "Registration Statement") by Principal Life and Principal Financial Group, Inc. has been declared effective by the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act") and no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been commenced by or are pending before or contemplated by the Commission;
5. all filings, if any, required by Rule 424 and Rule 430A under the Act have been made in a timely manner;
6. since [ ], the Trusts organized in connection with the program contemplated by the Registration Statement have issued the following series of Notes:  

[List each series of Notes.]  
[(collectively, the "Designated Notes")]; and
7. The Funding Agreements issued in connection with the Designated Notes have been executed and delivered by Principal Life in accordance with the terms and conditions of the Program Documents.



Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Standard Indenture Terms attached as Exhibit 4.1 to the Registration Statement.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the [ ] day of [ ], 200\_\_.

[NAME], [in his/her] capacity as an authorized officer of Principal Life

By:

-----

Name:

Title:

EXHIBIT F  
Principal Life Income Fundings Trusts

Officer's Certificate

The undersigned, the [ ] of U.S. Bank Trust National Association, the trustee (the "Trustee") of each common law trust organized under the laws of the State of New York (each, a "Trust") in connection with the program contemplated by Registration Statement Nos. 333-110499 and 333-110499-01 filed on Form S-3 (the "Registration Statement") by Principal Life Insurance Company and Principal Financial Group, Inc. with the Securities and Exchange Commission, does hereby certify to Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., in such capacity and on behalf of each Trust, to the knowledge of the undersigned officer and after reasonable inquiry, that:

1. each of the representations and warranties of each Trust contained in the Notes issued in connection with the Program, each Indenture entered into in connection with the Registration Statement and the Expense and Indemnity Agreement concerning the Trusts (the "Specified Agreements") (other than any representation or warranty expressly made as of a date prior to the date hereof) are true and correct on and as of the date hereof, with the same effect as though such representation or warranty had been made on and as of the date hereof;
2. no default under any of the Specified Agreements and no event or any condition which, with notice or lapse of time or both, would become a default, has occurred and is continuing as of the date hereof;
3. each Trust has performed and complied with, respectively, in all material respects, all of the agreements, covenants, obligations and conditions applicable to such Trust required by the Specified Agreements to be performed or complied with by such Trust on or before the date hereof;
4. the Notes issued in connection with the Program, have been issued, in all material respects, in accordance with the terms and conditions of the Program Documents; and
5. each Funding Agreement has been executed and delivered by the related Trust in accordance with the terms and conditions of the Program Documents.

Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Standard Indenture Terms attached as Exhibit 4.1 to the Registration Statement.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of  
the [ ] day of [ ], 200\_\_.

[NAME], in [his/her] capacity as \_\_\_\_\_ of  
the Trustee of each Trust

By:

-----  
Name:  
Title:

F-2

SCHEDULE I  
Terms Agreement Specifications

[In connection with Section 3(a)(iv) of the Distribution Agreement, the Program under which the Notes are issued is rated [ ] by Moody's Investors Service, Inc. ("Moody's") and [ ] by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). Principal Life and PFG expect that the Notes will be rated [ ] by Moody's. The Company's financial strength rating is [ ] by Moody's and [ ] by S&P.]

[In accordance with Section 2.02(b) of the Terms Agreement and in connection with the purchase of Notes from the Trust by the Purchasing Agent(s) as principal, the following items will be delivered on the Settlement Date:

Specify opinions and comfort letter, as applicable.]

All capitalized terms used herein and not otherwise defined herein will have the meanings set forth in the Distribution Agreement.

## CLOSING INSTRUMENT

WHEREAS, the parties named herein desire to enter into certain Program Documents contained herein, each such document dated as of this 0 day of 0, 2000 (the "Original Issue Date"), relating to the issuance by Principal Life Income Fundings Trust 0 (the "Trust") of Notes to investors under Principal Life's secured notes program;

WHEREAS, the Trust is a trust organized under, and its activities will be governed by, the provisions of the Trust Agreement as set forth in the omnibus instrument related to the Trust dated as of the date of the Pricing Supplement (the "Omnibus Instrument");

WHEREAS, certain licensing arrangements between the Trust and Principal Financial Services, Inc. will be governed pursuant to the provisions of the License Agreement, as set forth in the Omnibus Instrument;

WHEREAS, the Notes will be issued pursuant to the Indenture, as set forth in the Omnibus Instrument (the "Indenture");

WHEREAS, the sale of the Notes will be governed by the Terms Agreement, as set forth in the Omnibus Instrument;

WHEREAS, certain custodial arrangements of the Funding Agreement and the Guarantee will be governed pursuant to the provisions of the Custodial Agreement dated as of February 0, 2004 by and among Bankers Trust Company, N.A., acting as custodian (the "Custodian"), the Indenture Trustee and the Trustee, on behalf of the Trust;

WHEREAS, certain agreements relating to the Notes, the Funding Agreement and the Guarantee are set forth in the Coordination Agreement, as set forth in the Omnibus Instrument.

All capitalized terms used herein and not otherwise defined will have the meanings set forth in the Indenture.

[Remainder of Page Intentionally Left Blank]

PART I  
INSTRUCTIONS OF THE TRUST

As of the Original Issue Date, the Trust herewith delivers to the Indenture Trustee, or has caused to be delivered to the Indenture Trustee, the Notes specified in the Pricing Supplement, having the initial principal amount as set in the Pricing Supplement.

As of the Original Issue Date, the Trust hereby instructs the Indenture Trustee to take all actions required to be taken with respect to the Notes under Section 2.05(e) of the Indenture.

As of the Original Issue Date, Principal Life and the Trust hereby direct the Indenture Trustee to deposit the Net Proceeds to the Trust (as specified in the Pricing Supplement) in respect of the Notes to:

o

ABA #: o

Account #: o

Contract # :o

As of the Original Issue Date, the agent(s) specified in the Pricing Supplement hereby direct the Indenture Trustee to deliver the Notes as follows:

[Insert delivery Instructions]

[Remainder of Page Intentionally Left Blank]

PART II

ACKNOWLEDGMENT OF INDENTURE TRUSTEE CONCERNING THE NOTES

The Indenture Trustee certifies, as of the Original Issue Date, the following:

(a) The Indenture Trustee acknowledges receipt of the Notes; and

(b) The Indenture Trustee (including in its capacity as Registrar) has taken all action required to be taken with respect to the Notes under Section 2.05(e) of the Indenture.

[Remainder of Page Intentionally Left Blank]

PART III  
CERTIFICATE REGARDING CUSTODY OF THE FUNDING AGREEMENT AND THE GUARANTEE

In connection with the issuance of the Funding Agreement and the Guarantee, the Assignment of Funding Agreement and Guarantee (set forth in Part IV of this Closing Instrument), the Custodian hereby represents that it has received delivery of the Funding Agreement and the Guarantee and is holding the Funding Agreement and the Guarantee for the benefit of the Indenture Trustee and that the Funding Agreement and the Guarantee are in the possession of the Custodian at the address below:

Bankers Trust Company, N.A.  
665 Locust Street  
Des Moines, Iowa 50309-3702

[Remainder of Page Intentionally Left Blank]



PART IV  
ASSIGNMENT OF FUNDING AGREEMENT AND GUARANTEE

Pursuant to the terms of the Indenture, the Trust hereby grants to the Indenture Trustee, for the benefit of the Holders of the Notes, a first priority perfected security interest in, and collaterally assigns to the Indenture Trustee, for the benefit of the Holders of the Notes, the Trust's right, title, benefits, remedies and interests in, to and under the Funding Agreement, the Guarantee and the other Collateral described in the Indenture and all of its rights and privileges with respect to the Collateral and all income and profits thereon, and all interest, dividends and other payments and distributions with respect thereto, and all Proceeds of the foregoing.

Each of the Trust, the Indenture Trustee, Principal Life and PFG hereby agrees that, in furtherance of the collateral assignment described above, until such time as the Indenture Trustee notifies the Trust, Principal Life and PFG that all obligations of the Trust pursuant or related to the Notes have been paid or satisfied in full, the Indenture Trustee shall have and may exercise the rights and remedies of an Agreement Holder (as defined in the Funding Agreement) under the Funding Agreement and of the Trust under the Guarantee. Notwithstanding the foregoing (and whether or not the foregoing notification is given) and Section 5 of the Funding Agreement (which Principal Life acknowledges and agrees has been complied with) all obligations, representations and warranties of an Agreement Holder under the Funding Agreement and of the Trust under the Guarantee shall nevertheless remain obligations, representations and warranties of the Trust, as the case may be, and shall not be obligations of the Indenture Trustee. Principal Life, PFG and the Trust hereby agree that, until such time as the Indenture Trustee notifies the Trust, Principal Life and PFG that all obligations of the Trust pursuant to or related to the Notes have been paid or satisfied in full, Principal Life and PFG, as applicable, will comply with instructions originated by the Indenture Trustee with respect to the Funding Agreement and the Guarantee, as applicable, without further consent by the Trust.

Principal Life and PFG hereby affirm that they have recorded the collateral assignment and grant of the security interest on their books and records to reflect the same described above. Principal Life and PFG each agree, as applicable, that it will comply with all orders of the Indenture Trustee with respect to the Funding Agreement and the Guarantee, as applicable without any further consent of the Trust. Each of Principal Life and PFG hereby confirms that it has received all documents and instruments which it requires pursuant to the terms of the Funding Agreement and Guarantee, as applicable, in connection with the collateral assignment and grant of such security interest and/or rights of the Indenture Trustee hereunder.

Each of Principal Life and PFG hereby also represents that it has not received any notice of any adverse claim to the Funding Agreement or Guarantee, as applicable, other than the creation and perfection of a security interest in the Funding Agreement and Guarantee, as applicable, and the proceeds thereof as described herein.

The collateral assignment and grant of the security interest and this instrument shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of New York, without regard to conflicts of laws principles thereof, and shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

This instrument may not be amended, modified or waived without the consent of the Indenture Trustee, the Trust, Principal Life and PFG.

The Custodian hereby acknowledges the terms of this Assignment of Funding Agreement and Guarantee.

[Remainder of Page Intentionally Left Blank]

PART V  
ACKNOWLEDGEMENT OF FUNDING AGREEMENT AND GUARANTEE ASSIGNMENT

Simultaneously herewith, Principal Life has issued the Funding Agreement to the Trust and PFG has issued the Guarantee to the Trust. By this instrument, the receipt of which Principal Life and PFG hereby acknowledge, the Trust has informed Principal Life and PFG that it has conveyed and assigned (for security purposes) all of its right, title, benefits, remedies and interests in, to and under the Funding Agreement and the Guarantee to the Indenture Trustee pursuant to the Indenture.

Principal Life and PFG hereby consent to the aforementioned assignment of the Funding Agreement and the Guarantee, as applicable, with respect to the assignment thereof to the Indenture Trustee under the Indenture. Principal Life and PFG affirm that they have changed their books and records to reflect such assignment and agree to make payments in accordance with the terms of the Funding Agreement and the Guarantee, as applicable, to the Indenture Trustee. Principal Life and PFG also agree that all of the covenants made in the Funding Agreement and the Guarantee, as applicable, are also for the benefit of the Indenture Trustee, and further agree that Principal Life and PFG shall deliver to the Indenture Trustee duplicate original copies of all notices, statements, communications and instruments delivered by Principal Life and PFG, as applicable, to the Trust pursuant to the Funding Agreement and the Guarantee, as applicable.

Principal Life and PFG agree to execute and deliver to the Trust and the Indenture Trustee such documents and take such other action as the Trust and the Indenture Trustee may reasonably request in order to ensure that the consent granted by Principal Life and PFG pursuant to the preceding paragraph shall remain continuously effective until the termination of the Funding Agreement and the Guarantee, as applicable. The consent contained in the preceding paragraph is coupled with an interest and shall be irrevocable.

This acknowledgment of collateral assignment and grant of security interest and this instrument shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of New York, without regard to conflicts of laws principles thereof, and shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

This instrument may not be amended, modified or waived without the consent of the Indenture Trustee, the Trust, Principal Life and PFG.

The Custodian hereby acknowledges the terms of this Acknowledgment of Funding Agreement and Guarantee Assignment.

[Remainder of Page Intentionally Left Blank]

PART VI  
NOTICE OF SECURITY INTEREST

Pursuant to the Indenture, the Trust has collaterally assigned the Funding Agreement and Guarantee to the Indenture Trustee pursuant to the Indenture.

Notice is hereby given that the Indenture Trustee, on behalf of the Holders of the Notes, has a security interest in the Collateral, including, but not limited to, any and all payments to be made by Principal Life to the Trust pursuant to the Funding Agreement and any and all payments to be made by PFG to the Trust pursuant to the Guarantee. Each of Principal Life and PFG, by executing this instrument, hereby (x) consents to the security interest granted by the Trust, to the Indenture Trustee in the payments under the Funding Agreement and Guarantee, as applicable, (y) agrees to make all payments due under the Funding Agreement and Guarantee, as applicable, to the Collection Account or any other account designated in writing to Principal Life or PFG, as applicable, by the Indenture Trustee and (z) agrees to comply with all orders of the Indenture Trustee with respect to the Funding Agreement and Guarantee, as applicable, without any further consent from the Trust.

This notice of security interest shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of New York, without regard to conflicts of laws principles thereof, and shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

This instrument may not be amended, modified or waived without the consent of the Indenture Trustee, the Trust, Principal Life and PFG.

The Custodian hereby acknowledges the terms of this Notice of Security Interest.

[Remainder of Page Intentionally Left Blank]

PART VII  
PRINCIPAL LIFE OFFICER'S CERTIFICATE

The undersigned, an authorized officer of Principal Life, does hereby certify to each agent that is a party to the Terms Agreement (as defined in the Omnibus Instrument) relating to the Notes, in such capacity and on behalf of Principal Life, pursuant to the Distribution Agreement, that:

1. Since the respective dates as of which information is given in the Prospectus (as defined in the Distribution Agreement), as of the date hereof, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of Principal Life and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business;

2. The representations and warranties of Principal Life contained in the Distribution Agreement are true and correct with the same force and effect as though expressly made at and as of the date hereof;

3. Principal Life has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the date hereof; and

4. No stop order suspending the effectiveness of the Registration Statement (as defined in the Distribution Agreement) has been issued and no proceedings for that purpose have been instituted or are pending or, to the best of such person's knowledge, are threatened by the Commission (as defined in the Distribution Agreement).

[Remainder of Page Intentionally Left Blank]

PART VIII  
PFG OFFICER'S CERTIFICATE

The undersigned, an authorized officer of PFG, does hereby certify to each Purchasing Agent that is a party to the Terms Agreement (as defined in the Omnibus Instrument) relating to the Notes, in such capacity and on behalf of PFG, pursuant to the Distribution Agreement, that:

1. Since the respective dates as of which information is given in the Prospectus (as defined in the Distribution Agreement), as of the date hereof, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of PFG and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business;

2. The representations and warranties of PFG contained in the Distribution Agreement are true and correct with the same force and effect as though expressly made at and as of the date hereof;

3. PFG has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the date hereof; and

4. No stop order suspending the effectiveness of the Registration Statement (as defined in the Distribution Agreement) has been issued and no proceedings for that purpose have been instituted or are pending or, to the best of such person's knowledge, are threatened by the Commission (as defined in the Distribution Agreement).

[Remainder of Page Intentionally Left Blank]

PART IX  
TRUST CERTIFICATE

The Trust does hereby certify to each Purchasing Agent that is a party to the Terms Agreement (as defined in the Omnibus Instrument) relating to the Notes, in such capacity and on behalf of the Trust, pursuant to the Distribution Agreement and Terms Agreement, as applicable, that:

1. Since the respective dates as of which information is given in the Prospectus (as defined in the Distribution Agreement), as of the date hereof, there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Trust, whether or not arising in the ordinary course of business;

2. The representations and warranties of the Trust contained in the Distribution Agreement are true and correct with the same force and effect as though expressly made at and as of the date hereof; and

3. The Trust has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the date hereof.

[Remainder of Page Intentionally Left Blank]

PART X  
PRINCIPAL LIFE CERTIFICATION

Principal Life certifies, as of the Original Issue Date, that the Principal Life Officer's Certificate, a copy of which is attached as Exhibit A to this Closing Instrument, is true and correct and remains in full force and effect.

[Remainder of Page Intentionally Left Blank]

X-1

PART XI  
PFG CERTIFICATION

PFG certifies, as of the Original Issue Date, that the PFG Officer's Certificate, a copy of which is attached as Exhibit B to this Closing Instrument, is true and correct and remains in full force and effect.

[Remainder of Page Intentionally Left Blank]

XI-1



PART XII  
INDENTURE TRUSTEE CERTIFICATION

The Indenture Trustee certifies, as of the Original Issue Date, that the Indenture Trustee Officer's Certificate, a copy of which is attached as Exhibit C to this Closing Instrument, is true and correct and remains in full force and effect.

[Remainder of Page Intentionally Left Blank]

PART XIII  
TRUSTEE CERTIFICATION

The Trustee certifies, as of the Original Issue Date, that the Trustee Officer's Certificate, a copy of which is attached as Exhibit D to this Closing Instrument, is true and correct and remains in full force and effect.

[Remainder of Page Intentionally Left Blank]

PART XIV

CROSS-RECEIPT

The Trust hereby acknowledges receipt of the Net Proceeds to the Trust (as specified in the Pricing Supplement) from the Indenture Trustee and herewith delivers to the Indenture Trustee, or has caused to be delivered to the Indenture Trustee, the Notes, duly executed by the Trust pursuant to the Indenture.

The Trust hereby acknowledges receipt of funds for the Trust Beneficial Interest from or at the direction of the Trust Beneficial Owner and has caused to be registered in the name of the Trust Beneficial Owner the Trust Beneficial Interest pursuant to the Trust Agreement.

Principal Life hereby acknowledges receipt of the Net Proceeds to the Trust and, for purposes of the Funding Agreement, the receipt of the Net Proceeds to the Trust shall be deemed to be receipt by Principal Life in full of the Net Deposit (as specified in the Funding Agreement). Principal Life herewith delivers to the Indenture Trustee, or has caused to be delivered to the Indenture Trustee, the Funding Agreement, duly executed by Principal Life.

The Custodian, on behalf of the Indenture Trustee, hereby acknowledges receipt from Principal Life of the Funding Agreement.

The Custodian, on behalf of the Indenture Trustee, hereby acknowledges receipt from PFG of the Guarantee.

The Trust Beneficial Owner hereby acknowledges ownership of the Trust Beneficial Interest.

PFG and the Indenture Trustee hereby acknowledge the terms of this Cross-Receipt.

[Remainder of Page Intentionally Left Blank]

PART XV

MISCELLANEOUS AND EXECUTION PAGES

This Closing Instrument may be executed by each of the parties hereto in any number of counterparts, and by each of the parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Each signatory, by its execution hereof, does hereby become a party to each of the agreements or instruments identified for such party as of the Original Issue Date.

IN WITNESS WHEREOF, the undersigned have executed this Closing Instrument with respect to the Trust, dated as of the date first written above.

By: PRINCIPAL LIFE INSURANCE COMPANY  
(in executing below agrees and becomes a party to (i) the Instructions of the Trust set forth in Part I herein, (ii) the Assignment of Funding Agreement and Guarantee set forth in Part IV herein, (iii) the Acknowledgement of Funding Agreement and Guarantee Assignment set forth in Part V herein, (iv) the Notice of Security Interest set forth in Part VI herein, (v) the Principal Life Certification set forth in Part X herein and (vi) the Cross-Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: Principal Financial Group, Inc. (in executing below agrees and becomes a party to (i) the Assignment of Funding Agreement and Guarantee set forth in Part IV herein, (ii) the Acknowledgement of Funding Agreement and Guarantee Assignment set forth in Part V herein, (iii) the Notice of Security Interest set forth in Part VI herein, (iv) the PFG Certification set forth in Part XI herein and (v) the Cross Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: THE PRINCIPAL LIFE INCOME FUNDINGS TRUST DESIGNATED IN THIS CLOSING INSTRUMENT (in executing below agrees and becomes party to (i) the Instructions of the Trust set forth in Part I herein, (ii) the Assignment of Funding Agreement and Guarantee set forth in Part IV herein, (iii) the Acknowledgement of Funding Agreement and Guarantee Assignment set forth in Part V herein, (iv) the Notice of Security Interest set forth in Part VI herein, (v) the Trust Certificate set forth in Part IX herein and (vi) the Cross-Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: CITIBANK, N.A., in its capacity as Indenture Trustee, Registrar, Transfer Agent, Paying Agent and Calculation Agent (in executing below agrees and becomes party to (i) the Instructions of the Trust set forth in Part I herein, (ii) the Acknowledgement of Indenture Trustee Concerning the Notes set forth in Part II herein, (iii) the Assignment of Funding Agreement and Guarantee set forth in Part IV herein, (iv) the Acknowledgement of Funding Agreement and Guarantee Assignment set forth in Part V herein, (v) the Notice of Security Interest set forth in Part VI herein, (vi) the Indenture Trustee Certification set forth in Part XII herein and (vii) the Cross Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: U.S. BANK TRUST NATIONAL ASSOCIATION, in its capacity as Trustee (in executing below agrees and becomes a party to the Trustee Certification set forth in Part XIII herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: GSS HOLDINGS II, INC., in its capacity as Trust Beneficial Owner (in executing below agrees and becomes a party to the Cross-Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: BANKERS TRUST COMPANY, N.A., in its capacity as custodian (in executing below agrees and becomes a party to (i) the Certificate Regarding Custody of the Funding Agreement and the Guarantee set forth in Part III herein, (ii) the Assignment of Funding Agreement and Guarantee set forth in Part IV herein, (iii) the Acknowledgment of Funding Agreement and Guarantee Assignment set forth in Part V herein, (iv) the Notice of Security Interest set forth in Part VI herein and (v) the Cross Receipt set forth in Part XIV herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: [Name], in his/her capacity as an authorized officer of Principal Life (in executing below agrees and becomes a party to the Principal Life Officer's Certificate set forth in Part VII herein)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: [Name], in his/her capacity as an authorized officer of PFG (in executing below agrees and becomes a party to the PFG Officer's Certificate set forth in Part VIII herein)

By: -----  
Name: -----  
Title: -----

By: [MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED] (in executing below agrees and becomes a party to the Instructions of the Trust set forth in Part I herein)

By: -----  
Name: -----  
Title: -----

EXHIBIT A

PRINCIPAL LIFE OFFICER'S CERTIFICATE

I, an officer of Principal Life Insurance Company, an insurance company organized under the laws of Iowa ("Principal Life"), being fully aware of the by-laws (the "By-Laws") and resolutions of Principal Life, hereby certify on behalf of Principal Life that:

1. Attached hereto as Annex I is a true, correct and complete copy of the Articles of Incorporation and, as Annex II, a true, correct and complete copy of the By-Laws of Principal Life, together with all amendments thereto, if any, as in full force from the date thereof through to the Original Issue Date.
2. Attached hereto as Annex III is a true, correct and complete copy of the resolution duly adopted by the Board of Directors of Principal Life at a meeting duly called and held on \_\_\_\_\_, 2003, which resolution is relevant to the Program, including the issuance of the Notes, and such resolution has not been amended, modified or rescinded and remains in full force and effect; and such resolution is the only resolution adopted by Principal Life relating to the Program and the Notes.
3. Attached hereto as Annex IV is a list of each of the duly elected officers of Principal Life holding on the Original Issue Date the office or offices set forth opposite his or her name authorized on behalf of Principal Life (i) to execute (manually or by facsimile) all agreements, documents, notices, acknowledgements and certificates to which Principal Life is a party or which Principal Life is required to deliver in connection with the issuance of the Notes and (ii) to take any other action on behalf of Principal Life in relation to the above issue; and such signatures set forth therein are the true signatures of such persons.

All capitalized terms used and not defined herein shall have the meanings assigned to those terms in the Indenture.

By: [Name], in [his/her] capacity as an officer of Principal Life Insurance Company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



EXHIBIT B

PFG OFFICER'S CERTIFICATE

I, an officer of Principal Financial Group, Inc., a corporation organized under the laws of Delaware ("PFG"), being fully aware of the by-laws (the "By-Laws") and resolutions of PFG, hereby certify on behalf of PFG that:

1. Attached hereto as Annex I is a true, correct and complete copy of the Articles of Incorporation and, as Annex II, a true, correct and complete copy of the By-Laws of PFG, together with all amendments thereto, if any, as in full force from the date thereof through to the Original Issue Date.
2. Attached hereto as Annex III is a true, correct and complete copy of the resolution duly adopted by the Board of Directors of PFG at a meeting duly called and held on \_\_\_\_\_, 2003, which resolution is relevant to the Program, including the issuance of the Notes, and such resolution has not been amended, modified or rescinded and remains in full force and effect; and such resolution is the only resolution adopted by PFG relating to the Program and the Notes.
3. Attached hereto as Annex IV is a list of each of the duly elected officers of PFG holding on the Original Issue Date the office or offices set forth opposite his or her name authorized on behalf of PFG (i) to execute (manually or by facsimile) all agreements, documents, notices, acknowledgements and certificates to which PFG is a party or which PFG is required to deliver in connection with the issuance of the Notes and (ii) to take any other action on behalf of PFG in relation to the above issue; and such signatures set forth therein are the true signatures of such persons.

All capitalized terms used and not defined herein shall have the meanings assigned to those terms in the Indenture.

By: [Name], in [his/her] capacity as an officer of Principal Financial Group, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT C

INDENTURE TRUSTEE OFFICER'S CERTIFICATE

I, an officer of Citibank, N.A., as indenture trustee (the "Indenture Trustee"), hereby certify that:

1. The Indenture (the "Indenture") contained in, and dated as of the date specified in, the Omnibus Instrument, by and between the Indenture Trustee and the Trust has been duly executed and delivered in the name and on behalf of the Indenture Trustee.
2. The Notes issued by the Trust have been duly authenticated by the Indenture Trustee.
3. Each of the persons named on Annex I hereto has been duly elected or appointed and is duly qualified as an officer of the Indenture Trustee on the Original Issue Date, holding the office or offices set forth opposite his or her name, and the signature set forth opposite his or her name is a specimen of his or her genuine signature.
4. Attached hereto as Annex II is a true, correct and complete copy of the By-laws of the Indenture Trustee as in effect on the Original Issue Date.

All capitalized terms used and not defined herein shall have the meanings assigned to those terms in the Indenture.

By: [Name], in [his/her] capacity as an  
officer of Citibank, N.A., as  
indenture trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT D

TRUSTEE OFFICER'S CERTIFICATE

I, an officer of U.S. Bank Trust National Association, as trustee (the "Trustee"), hereby certify that:

1. The Trust Agreement (the "Trust Agreement"), contained in, and dated as of the date specified in, the Omnibus Instrument, by and between the Trustee and the Trust Beneficial Owner has been duly executed and delivered in the name and on behalf of the Trustee.
2. Each of the persons named on Annex I hereto has been duly elected or appointed and is duly qualified as an officer of the Trustee on the Original Issue Date, holding the office or offices set forth opposite his or her name, and the signature set forth opposite his or her name is a specimen of his or her genuine signature.
3. Attached hereto as Annex II is a true, correct and complete copy of the By-laws of the Trustee as in effect on the Original Issue Date.

All capitalized terms used and not defined herein shall have the meanings assigned to those terms in the Trust Agreement.

By: [Name], in [his/her] capacity as an  
officer of U.S. Bank Trust National  
Association, as trustee

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## CUSTODIAL AGREEMENT

THIS CUSTODIAL AGREEMENT (this "CUSTODIAL AGREEMENT") is entered into as of March 5, 2004, among Bankers Trust Company, N.A., a national banking association, acting as custodian (the "CUSTODIAN"), Citibank, N.A. in its capacity as indenture trustee (the "INDENTURE TRUSTEE") for the holders of the notes (the "NOTES") to be issued by each trust (each a "TRUST") organized in connection with the Principal Life Insurance Company Secured Notes Program (the "PROGRAM"), and U.S. Bank Trust National Association, as trustee (the "TRUSTEE") on behalf of each Trust organized in connection with the Program.

WHEREAS, in connection with the issuance and sale of the Notes by each Trust, the Trustee, on behalf of each Trust, will purchase from Principal Life Insurance Company ("PRINCIPAL LIFE") a funding agreement (a "FUNDING AGREEMENT"), the payment obligations of which are fully and unconditionally guaranteed by Principal Financial Group, Inc. ("PFG") pursuant to a guarantee issued to such Trust (the "GUARANTEE");

WHEREAS, the parties desire that each Funding Agreement and Guarantee be held in the State of Iowa at all times prior to the occurrence and continuance of an Event of Default (as defined in each such Funding Agreement) or a breach of PFG's obligations under the terms of the Guarantee;

WHEREAS, the parties desire that the Custodian be appointed as custodian for the Indenture Trustee, to hold in safe custody for the benefit of the Indenture Trustee, on the terms and conditions provided in this Custodial Agreement, each Funding Agreement and Guarantee; and

WHEREAS, the Custodian has the power and ability sufficient to undertake and to discharge the duties accepted by it under this Custodial Agreement;

NOW, THEREFORE, in consideration of the foregoing premises and the covenants contained herein, and for other good and valuable consideration, the receipt of which are hereby acknowledged, the parties hereto covenant and agree as follows:

ARTICLE 1  
DEFINITIONS

SECTION 1.1. Incorporation of Definitions by Reference. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Standard Indenture Terms filed as an exhibit to the registration statement concerning the Program.

ARTICLE 2  
APPOINTMENT OF CUSTODIAN

SECTION 2.1. Appointment of Custodian. The Indenture Trustee hereby appoints the Custodian and the Custodian hereby acknowledges that it will act as custodian for the Indenture Trustee with respect to each Funding Agreement and Guarantee that is

collaterally assigned to the Indenture Trustee pursuant to the Indenture and with respect to each Funding Agreement and each Guarantee in which a security interest is granted to the Indenture Trustee pursuant to the Indenture, and that comes into the physical custody or possession of the Custodian under this Custodial Agreement, until the earlier of (a) such time when the Indenture Trustee notifies the Custodian in writing to the contrary, whereupon such physical custody and possession of each Funding Agreement and Guarantee specified in such notice will be transferred to the Indenture Trustee or another Person in the manner directed by the Indenture Trustee or (b) the termination of this Custodial Agreement. Acceptance by the Custodian of this appointment is conclusively evidenced by its execution of this Custodial Agreement.

SECTION 2.2. Custodian Not Subject to Direction of Any Trust.

In no event shall the Custodian, in such custodial role, be construed to be subject to the direction of the Trustee, on behalf of any Trust, or deliver any such Funding Agreement or Guarantee to the Trustee, on behalf of any Trust, without the express written consent of the Indenture Trustee.

ARTICLE 3

DELIVERY OF FUNDING AGREEMENTS AND GUARANTEES

SECTION 3.1. Delivery of Funding Agreements and Guarantees.

The Indenture Trustee shall, for safekeeping, deposit each Funding Agreement and Guarantee with and deliver each Funding Agreement and Guarantee into, or cause each Funding Agreement and Guarantee to be deposited with and delivered into, the actual, exclusive and continuous possession and control of the Custodian as custodian for the Indenture Trustee.

SECTION 3.2. Limited Interest of Each Trust. Each Trust shall

retain and reserve only such interests, claims or rights in the Funding Agreements and Guarantees as are set forth herein, in the Indenture or other such documents as are used (i) to effect the applicable Trust's collateral assignment of the applicable Funding Agreement and applicable Guarantee to the Indenture Trustee and to record Principal Life's acknowledgement thereof and (ii) to grant a security interest in the applicable Funding Agreement and applicable Guarantee to the Indenture Trustee and to record PFG's and Principal Life's, respectively, acknowledgement thereof.

SECTION 3.3. Security Interest of Indenture Trustee. Delivery

of any Funding Agreement or Guarantee to the Custodian shall, without any further act or condition, constitute conclusive evidence against the applicable Trust and all third parties of the Indenture Trustee's security interest therein.

SECTION 3.4. Indenture Trustee Covenant to Abide by Custodial

Agreement. The Indenture Trustee hereby covenants that, at all times prior to an Event of Default or a breach of PFG's obligations under a Guarantee and so long as it retains a security interest or other ownership interest in a Funding Agreement or Guarantee, it will take no action to terminate or to cause the termination of this Custodial Agreement, and it will abide by the requirement herein that the physical custody and possession of each such Funding Agreement and each such Guarantee be at

the location provided in Section 9.5 or at such other location within the State of Iowa designated by the Custodian.

ARTICLE 4  
INSPECTION OF FUNDING AGREEMENTS, GUARANTEES, BOOKS AND RECORDS

SECTION 4.1. Inspection of Funding Agreements and Guarantees. So long as any Notes are Outstanding, the Indenture Trustee and the Trustee, on behalf of the applicable Trust, by or through their attorneys, agents or employees, shall each be entitled, but shall be under no obligation, at any mutually agreeable time, during normal business hours, at the expense of the applicable Trust, upon two Business Days' notice to the Custodian, to examine and audit each Funding Agreement and Guarantee held by the Custodian.

SECTION 4.2. Inspection of Books and Records. The Custodian shall maintain appropriate books and records relating to services performed by it with respect to each Funding Agreement and Guarantee and, so long as any Notes are Outstanding, the Indenture Trustee and the Trustee, on behalf of the applicable Trust, by or through their attorneys, agents or employees, shall each be entitled, but shall be under no obligation, at any mutually agreeable time, during normal business hours, at the expense of the applicable Trust, upon two Business Days' notice to the Custodian, to examine such books and records.

ARTICLE 5  
DUTIES OF CUSTODIAN

SECTION 5.1. General. The Custodian shall:

- (a) on behalf of the Indenture Trustee, accept and hold each Funding Agreement and Guarantee in the State of Iowa at its address indicated in Section 9.5 as custodian for the Indenture Trustee, subject to the provisions of this Custodial Agreement, the Indenture and each such Funding Agreement and Guarantee;
- (b) have and maintain open, continuous and exclusive possession, dominion and control over each Funding Agreement and Guarantee delivered to it under this Custodial Agreement, subject only to the rights and interest of the Indenture Trustee and the applicable Trust;
- (c) from time to time, certify the receipt of each Funding Agreement and Guarantee as may be reasonably requested by the Indenture Trustee or the Trustee, on behalf of the applicable Trust;
- (d) from time to time upon request by (i) the Indenture Trustee, or (ii) the Trustee, on behalf of the applicable Trust, and the Indenture Trustee, submit such information and take such action as may be reasonably required by the Trustee, on behalf of the applicable Trust or the Indenture Trustee to assure

that each Funding Agreement and Guarantee is maintained in a proper and secure condition;

- (e) upon receipt of any Funding Agreement or Guarantee, issue to the Indenture Trustee and the applicable Trust a certificate relating to the applicable Funding Agreement and related Guarantee in substantially the form attached as Exhibit A attached hereto, which is made a part hereof;
- (f) upon its receipt of written notice from the Indenture Trustee that an Event of Default has occurred with respect to any Funding Agreement or a breach of the obligations of PFG under any Guarantee has occurred and at the written direction of the Indenture Trustee, deliver each such Funding Agreement and related Guarantee to the Indenture Trustee;
- (g) at its own expense, maintain at all times during the term of this Custodial Agreement and keep in full force and effect (i) fidelity insurance, (ii) theft of documents insurance and (iii) forgery insurance; provided, that such insurance shall be in amounts, with standard coverage and subject to deductibles, as are customary for similar insurance typically maintained by financial institutions that act as custodians in similar transactions;
- (h) unless otherwise specified herein, in providing services hereunder with respect to any Funding Agreement or Guarantee, follow the written instructions received from the Indenture Trustee;
- (i) exercise reasonable care and diligence, consistent with customary standards for such custody, in the possession, retention and protection of each Funding Agreement and Guarantee delivered to it under this Custodial Agreement;
- (j) except as otherwise required by applicable law, maintain the confidentiality of the information provided hereunder and in each Funding Agreement and Guarantee, and not disclose or in any way communicate such information to third parties without the express written consent of the Trustee, on behalf of the applicable Trust (provided, however, that notwithstanding anything herein to the contrary and except as reasonably necessary to comply with any applicable federal and state securities laws, the Custodian (and each employee, representative or other agent of the Custodian) may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to the Custodian relating to such U.S. federal and state income tax treatment and tax structure, where "tax structure" is any fact that may be relevant to understanding the U.S. federal or state income tax treatment of the transaction);

- (k) request written direction from the Indenture Trustee and rely upon such written direction in the event that (i) any dispute shall arise between the parties with respect to the disposition of any Funding Agreement or Guarantee held hereunder or (ii) the Custodian shall be uncertain as to how to proceed in a situation not explicitly addressed by the terms of this Custodial Agreement whether because of conflicting demands by the other parties hereto or otherwise; and
- (l) have only those duties as are specifically provided herein, which shall be deemed purely ministerial in nature, and shall under no circumstance be deemed a fiduciary for any of the parties to this Custodial Agreement.

SECTION 5.2. Merger, Conversion or Consolidation of Custodian.

Notwithstanding anything herein to the contrary, any banking association or corporation into which the Custodian may be merged, converted or with which the Custodian may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Custodian shall be a party, or any banking association or corporation to which all or substantially all of the corporate trust business of the Custodian shall be transferred, shall succeed to all the Custodian's rights, obligations and immunities hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto.

SECTION 5.3. Compliance with Writs, Orders or Decrees. In the

event that any Funding Agreement or Guarantee shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Custodial Agreement, the Custodian is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event the Custodian obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other Person, firm or corporation by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

SECTION 5.4. Delegation of Duties. The Custodian shall not

employ any third party institution to carry out any of the services to be provided hereunder without the express written consent of the Indenture Trustee, which consent shall not be unreasonably withheld.

SECTION 5.5. No Constructive Knowledge. The Custodian shall

not be deemed to have knowledge of the occurrence of a Default or Event of Default unless the Custodian receives a written notice of such Default or Event of Default from the Indenture Trustee or the Trustee, on behalf of the applicable Trust.

SECTION 5.6. Reliance. In performance of its duties under this

Custodial Agreement, the Custodian shall be permitted to rely on any certificate, instrument, document or communication believed by it to be genuine, correct and signed by the proper



Person or Persons. The Trustee, on behalf of the applicable Trust, and the Indenture Trustee shall each execute and deliver to the Custodian a certificate of incumbency for the purpose of establishing the identity of the representatives of the Trustee, on behalf of the applicable Trust, and the Indenture Trustee, respectively, entitled to issue instructions or directions to the Custodian on behalf of each such party. In the event of any change in the identity of such representatives, a new certificate of incumbency shall be executed and delivered to the Custodian by the appropriate party. Until such time as the Custodian shall receive a new incumbency certificate, the Custodian shall be fully protected in relying without inquiry on any then current incumbency certificate on file with the Custodian.

SECTION 5.7. Release of Funding Agreements and Guarantees. Except as consented to by the Indenture Trustee or as otherwise provided in the Indenture and this Custodial Agreement, the Custodian shall not release any Funding Agreement or Guarantee from its possession without receiving a prior written request duly executed on behalf of the Indenture Trustee.

SECTION 5.8. Limitations of Custodian Responsibility.

- (a) The Custodian assumes no responsibility under this Custodial Agreement other than to render the services contemplated hereunder.
- (b) The Custodian assumes no responsibility for the effectiveness, genuineness, validity or enforceability of any Funding Agreement or Guarantee in its custody or for making any inquiry into any such Funding Agreement or Guarantee.
- (c) The Custodian shall not be liable or deemed to be in default for any failure or delay in performance of any duty in whole or in part arising out of or caused by any of the following: a major external flood; earthquake; "act of God;" failure of public utility; act of war; act of terrorism; or rebellion or revolution in the United States.

SECTION 5.9. Other Activities of the Custodian.

- (a) Nothing herein shall prevent the Custodian or any of its Affiliates from engaging in other businesses, or from rendering services of any kind to any Trust, the Indenture Trustee or any other Person or entity to the extent permitted by applicable law.
- (b) It is understood that the Custodian and any of its Affiliates may engage in any other business and furnish custodial services to others.
- (c) The Custodian will be free, in its sole discretion, to effect transactions on behalf of itself or for others, which may be the same as or different from those effected under this Custodial Agreement.

- (d) The Custodian shall have the right, but not the obligation to consult with counsel of its choice and shall not be liable for action taken or omitted to be taken by the Custodian either in accordance with the advice of such counsel or in accordance with any opinion of counsel to any Trust addressed and delivered to the Custodian.

ARTICLE 6  
COMPENSATION, EXPENSES AND INDEMNIFICATION

SECTION 6.1. Compensation, Expenses and Indemnification. The Custodian shall be entitled to compensation, expenses and indemnification as set forth in that certain Expense and Indemnity Agreement (the "EXPENSE AND INDEMNITY AGREEMENT"), dated as of March 5, 2004, entered into between the Custodian and Principal Life.

ARTICLE 7  
REPRESENTATIONS, WARRANTIES AND COVENANTS OF CUSTODIAN

SECTION 7.1. Representations and Warranties of Custodian. The Custodian hereby represents and warrants to the Indenture Trustee and the Trustee, for the benefit of each Trust, that:

- (a) it is a national banking association duly organized and validly existing and in good standing under the laws of the State of Iowa and has full power and authority to own its assets and to transact the business in which it is currently engaged and is duly qualified and in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires, or the performance of this Custodial Agreement would require, such qualification;
- (b) it, and each Person acting on its behalf, has full power and authority to execute and deliver this Custodial Agreement and to perform all of its obligations under this Custodial Agreement; and
- (c) this Custodial Agreement, and each instrument and document required hereunder that was executed and delivered by, or on behalf of, the Custodian, has been executed and delivered by a duly authorized officer of the Custodian.

SECTION 7.2. Covenants of Custodian. The Custodian hereby covenants to the Indenture Trustee and the Trustee, for the benefit of each Trust, that:

- (a) at all times it will maintain physical custody and possession of each Funding Agreement and Guarantee deposited with it pursuant to the terms of this Custodial Agreement within the State of Iowa at the location specified in Section 9.5 or at such other location within the State of Iowa designated by the Custodian;

- (b) each instrument and document required to be executed or delivered by, or on behalf of, the Custodian, shall be executed and delivered by a duly authorized officer of the Custodian;
- (c) prior to any affiliation with any Trust in the future, it shall notify the Indenture Trustee of any such contemplated affiliation; and
- (d) it shall not institute, or join any other Person in instituting, against any Trust any bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation proceedings or other proceedings under federal or state bankruptcy or similar laws until at least one year and one day (or, if longer, the applicable preference period then in effect) after the payment in full of all Notes issued by any Trust in connection with the Program.

ARTICLE 8  
TERMINATION

Section 8.1 General. This Custodial Agreement and the duties and responsibilities of the Custodian hereunder shall remain in effect until the occurrence of one or more of the following events:

- (a) delivery to the Custodian by the Indenture Trustee of a written certification signed by the Indenture Trustee that each Trust organized in connection with the Program has paid and discharged all obligations with respect to the Notes issued by each such Trust and that the Program has been terminated;
- (b) termination of each Indenture entered into by each Trust organized in connection with the Program, and delivery by the Custodian of each Funding Agreement and Guarantee in its possession hereunder to the Indenture Trustee or as the Indenture Trustee shall direct in writing and certification by the Indenture Trustee that the Program has been terminated; or
- (c) termination of this Custodial Agreement pursuant to Section 8.2, 8.3 or 8.4.

SECTION 8.2. Termination by Custodian. This Custodial Agreement may be terminated by the Custodian, at any time, and the Custodian may resign, upon 30 days' prior written notice to the Trustee, on behalf of each Trust and the Indenture Trustee; provided, however, that no termination or resignation pursuant to this Section 8.2 shall be effective until the date as of which a successor Custodian shall be appointed in accordance with Section 8.6 and shall have agreed in writing to assume all of the Custodian's duties and obligations under this Custodial Agreement.

SECTION 8.3. Termination by Indenture Trustee Without Cause. This Custodial Agreement may be terminated at any time by the Indenture Trustee, without cause, and the Indenture Trustee may remove the Custodian, upon 30 days' prior written notice to the Custodian and each Trust (or such shorter notice as is acceptable to the

Custodian and each Trust); provided, however, that no termination or removal pursuant to this Section 8.3 shall be effective until the date as of which a successor Custodian shall be appointed in accordance with Section 8.6 and shall have agreed in writing to assume all of the Custodian's duties and obligations under this Custodial Agreement.

SECTION 8.4 Termination by Indenture Trustee for Cause. This Custodial Agreement may be terminated at any time by the Indenture Trustee, for cause, and the Indenture Trustee may remove the Custodian, upon 10 days' prior written notice to the Custodian; provided, however, that no termination or removal pursuant to this Section 8.4 shall be effective until the date as of which a successor Custodian shall be appointed in accordance with Section 8.6 and shall have agreed in writing to assume all of the Custodian's duties and obligations under this Custodial Agreement. For purposes of determining "cause" with respect to any such termination of this Custodial Agreement, such term shall mean any one of the following events:

- (a) the Custodian willfully violates, or takes any action that it knows materially breaches, any provision of this Custodial Agreement;
- (b) the Custodian materially breaches in any respect any provision of this Custodial Agreement (other than as specified in paragraph (a) of this Section 8.4) and fails to cure such breach within 30 days of its becoming aware, or its receiving notice from the Indenture Trustee, of such breach;
- (c) the Custodian is wound up or dissolved or there is appointed over it, or a substantial portion of its assets, a receiver, administrator, administrative receiver, trustee or similar officer;
- (d) the Custodian (i) ceases to be able to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, its creditors generally; (ii) applies for or consents to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Custodian or of any substantial part of its properties or assets, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Custodian and continue undismissed for 60 days; (iii) authorizes or files a voluntary petition in bankruptcy, or applies for or consents to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Custodian without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 days or result in adjudication of bankruptcy or insolvency; (iv) permits or suffers all or any substantial part of its properties or assets to be sequestered or attached by court order and such order remains undismissed for 60 days; or (v) engages in any activity analogous

to the activities set forth in clauses (i) through (iv) of this Section 8.4(d) in any applicable jurisdiction; or

- (e) the occurrence of an act by the Custodian that constitutes fraud or criminal activity in the performance of its obligations under this Custodial Agreement, or the Custodian being convicted of a criminal offense materially related to its primary businesses.

SECTION 8.5. Liabilities After Termination. If this Custodial Agreement is terminated as provided herein, none of the parties hereto shall have any further liability or obligation to the other parties hereto, except as provided in Sections 5.1(j), 8.6, 8.7 and 8.8 of this Custodial Agreement.

SECTION 8.6. Appointment of Successor Custodian. Any removal or resignation of the Custodian while any Notes are Outstanding will be effective only upon the appointment by the Indenture Trustee (and the acceptance in writing by such successor Custodian) of a successor Custodian that is an established institution in the State of Iowa which (a) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Custodian hereunder and (b) is legally qualified and has the capacity to act as Custodian hereunder in the assumption of all of the responsibilities, duties and obligations of the Custodian hereunder. The Trustee, on behalf of each Trust, the Indenture Trustee, the Custodian and the successor Custodian shall take such action (or cause the removed or resigning Custodian to take such action) consistent with this Custodial Agreement as shall be necessary to effectuate any such succession.

SECTION 8.7. Rights and Remedies of Indenture Trustee Regarding Termination. In the event of removal of the Custodian pursuant to this Custodial Agreement by the Indenture Trustee, the Indenture Trustee shall have all of the rights and remedies available with respect thereto at law or equity, and, without limiting the foregoing, the Indenture Trustee may by notice in writing to the Custodian as provided under this Custodial Agreement terminate all the rights and obligations of the Custodian under this Custodial Agreement (except those that survive termination pursuant to Section 8.5). Upon the expiration of any applicable notice period with respect to termination of this Custodial Agreement, all authority and power of the Custodian under this Custodial Agreement, whether with respect to each Funding Agreement or Guarantee or otherwise, shall automatically and without further action by any Person or entity pass to and be vested in the successor Custodian upon the appointment thereof and the agreement of such successor Custodian to assume the Custodian's duties and obligations under this Custodial Agreement.

SECTION 8.8. Actions Upon Termination.

- (a) Upon the effective date of termination of this Custodial Agreement, the Custodian shall, as soon as practicable:
  - (i) deliver to the Indenture Trustee, the successor Custodian or to such other Person as the Indenture Trustee directs in writing all Funding

Agreements and Guarantees then in the custody of the Custodian; and

- (ii) deliver to the Indenture Trustee or successor Custodian an accounting with respect to the books and records relating to each Funding Agreement and Guarantee that was delivered to the Custodian.
- (b) Notwithstanding any such termination, the Custodian shall remain liable to the extent set forth herein (but subject to Section 8.6) for its acts or omissions hereunder arising prior to termination and for any expenses, losses, claims, damages, judgments, assessments, costs or other liabilities (including reasonable attorneys' fees) in respect of or arising out of a material breach of the representations, warranties or covenants made by the Custodian under this Custodial Agreement or from any failure of the Custodian to comply with the provisions of this Section 8.8.
- (c) The Custodian agrees that, notwithstanding any termination, it shall reasonably cooperate in any proceeding arising in connection with this Custodial Agreement, the Indenture or any Funding Agreement or Guarantee upon receipt of appropriate indemnification and expense reimbursement.

#### ARTICLE 9 GENERAL PROVISIONS

SECTION 9.1. Binding Effect; Successors, Transferees and Assigns. This Custodial Agreement shall be binding upon the parties hereto, their respective successors, transferees and assigns, and shall inure the benefit of and be enforceable by all parties hereto and their respective successors, transferees and permissible assigns.

SECTION 9.2. Amendments. This Custodial Agreement may not be amended without the express written consent of the Custodian, the Indenture Trustee and the Trustee acting on behalf of each Trust.

SECTION 9.3. Assignment of Funding Agreements and Guarantees. No collateral assignment, grant of security interest or similar action by, or on behalf of, any Trust of any Funding Agreement or Guarantee shall be recognized by the Custodian or be effective unless approved in writing by the Indenture Trustee.

SECTION 9.4. Notices. All notices, requests and other communications under this Custodial Agreement shall be in writing (including bank wire, facsimile or similar writing) and shall be given to the relevant Person at its address or facsimile number set forth below or such other address or facsimile number as such Person may hereafter specify for such purpose by not less than 10 Business Days' prior notice to each other Person specified in this Section 9.4. Each such notice, request or other communication shall be effective (a) if given by facsimile, when such facsimile is transmitted to the

facsimile number specified pursuant to this Section 9.4, (b) if given by mail, 48 hours after such communication is deposited in the mails with first class postage prepaid, or (c) if given by any other means, when delivered or received at the address specified in this Section 9.4.

Such notices, requests and other communications shall be addressed, if to the Trust, to:

Principal Life Income Fundings Trust  
c/o U.S. Bank Trust National Association, as Trustee  
100 Wall Street, 16th Floor  
New York, New York 10005  
Attention: Adam Berman  
Facsimile: (212) 361-2458

if to the Indenture Trustee, to:

Citibank, N.A.  
Citibank Agency & Trust  
111 Wall Street, 14th Floor, Zone 3  
New York, New York 10005  
Attention: Nancy Forte  
Facsimile: 212-657-7403

if to the Trustee, to:

U.S. Bank Trust National Association  
100 Wall Street, 16th Floor  
New York, New York 10005  
Attention: Adam Berman  
Facsimile: 212-509-3384

SECTION 9.5. Address of Custodian. The Custodian shall hold each Funding Agreement and Guarantee at the following address:

Bankers Trust Company, N.A.  
665 Locust Street  
Des Moines, Iowa 50309-3702  
Attention: Angela C. Brick  
Facsimile: 515-247-2101

SECTION 9.6. Waiver of Certain Rights. The Custodian hereby waives, relinquishes and releases any rights which it may have by way of contract or law, whether through exercise of a right of set-off, security interest, counterclaim or otherwise, to obtain any property or payment from, under or with respect to any Funding Agreement or Guarantee delivered to it hereunder.

SECTION 9.7. Provisions Separable. Any provision of this Custodial Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or non-authorization without invalidating the remaining provisions hereof or affecting the validity or enforceability or legality of such provision in any other jurisdiction.

SECTION 9.8. Governing Law. This Custodial Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to its choice of law principles.

SECTION 9.9. Waiver of Jury Trial. Each of the parties to this Custodial Agreement hereby irrevocably waives any and all right to a trial by jury with respect to any legal proceeding arising out of or relating to this or any related transaction.

SECTION 9.10. Headings Not to Affect Interpretation. The headings contained in this Custodial Agreement are for convenience only, and they neither form a part of this Custodial Agreement nor are they to be used in the construction or interpretation hereof.

SECTION 9.11. Counterparts. This Custodial Agreement may be executed and delivered in any number of counterparts, each of which, when so executed and delivered, shall be an original; provided, however, that such counterparts shall together constitute but one and the same instrument.



IN WITNESS WHEREOF, the parties have caused this Custodial Agreement to be duly executed by their respective authorized officers, as of the date first above written.

BANKERS TRUST COMPANY, N.A., as  
Custodian

By:

-----  
Name: Angela C. Brick  
Title: Vice President

CITIBANK, N.A., as Indenture Trustee for  
the benefit of the holders of the Notes  
issued in connection with the Program

By:

-----  
Name:  
Title:

U.S. BANK TRUST NATIONAL ASSOCIATION, as  
Trustee, on behalf of each Trust  
organized in connection with the Program

By:

-----  
Name:  
Title:

CERTIFICATE REGARDING CUSTODY OF THE  
FUNDING AGREEMENT AND THE GUARANTEE

In connection with the issuance of the Funding Agreement, the Assignment of Funding Agreement (set forth in Part IV of the Closing Instrument (as defined in the Omnibus Instrument)) and the issuance of the Guarantee, the Custodian hereby represents that it has received delivery of the Funding Agreement and the Guarantee and is holding the Funding Agreement and the Guarantee for the benefit of the Indenture Trustee and that the Funding Agreement and the Guarantee are in the possession of the Custodian at the address below:

Bankers Trust Company, N.A.  
665 Locust Street  
Des Moines, Iowa 50309-3702

(PRINCIPAL FINANCIAL GROUP LOGO)

March 3, 2004

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392

Re: \$4,000,000,000 Secured Notes Registration Statement on  
Form S-3

Ladies and Gentlemen:

I am Senior Vice President and Deputy General Counsel of Principal Life Insurance Company ("Principal Life"). Other attorneys in the Law Department of Principal Life, under my supervision, have reviewed the documents relating to the establishment of a program pursuant to which newly formed common law trusts formed under the laws of the State of New York (each, a "Trust") will issue notes (the "Notes"), with each Trust's Notes to be secured by a funding agreement (in the form filed as an exhibit to the Registration Statement (as defined below), each a "Funding Agreement") to be entered into between Principal Life and the relevant Trust, and a guarantee issued by Principal Financial Group, Inc. ("PFG") which fully and unconditionally guarantees the payment obligations of Principal Life. Principal Life and PFG filed a Registration Statement on Form S-3 (File Nos. 333-110499 and 333-110499-01), on November 14, 2003, as amended by Amendment No. 1 filed on December 19, 2003 and Amendment No. 2 filed on March 3, 2004 (the "Registration Statement") with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended, including a prospectus relating to the Notes (the "Prospectus"), a prospectus supplement relating to secured medium-term notes to be issued by the Trusts (the "Institutional Prospectus Supplement") and a prospectus supplement relating to Principal(R) Life Core Notes(R) to be issued by the Trusts (the "Retail Prospectus Supplement").

In rendering the opinion expressed below, I have assumed the due authorization, execution and delivery of all Funding Agreements by the parties thereto, other than as to the authorization, execution and delivery by Principal Life.

On the basis of and subject to the foregoing, and in reliance thereon, and subject to the limitations, qualifications and exceptions set forth below, I am of the opinion that:

1. Each Funding Agreement when issued by Principal Life as contemplated by the Registration Statement will constitute a valid and binding obligation of Principal Life enforceable against it in accordance with its terms, except to the extent enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability relating to or affecting the enforcement of creditors' rights and by the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

I express no opinion herein other than as to the law of the State of Iowa. This opinion is rendered as of the date hereof and I assume no obligation to update or supplement this letter to reflect any circumstances which may hereafter come to my attention with respect to the opinion and statements set forth above, including any changes in applicable law which may hereafter occur.

I hereby consent to the filing of this letter as an exhibit to the Registration Statement and to the use of my name under the heading "Legal Matters" in the Prospectus forming a part thereof and to the incorporation by reference of this opinion and consent as exhibits to any registration statement filed in accordance with Rule 462(b) under the Act relating to the Notes. In giving such consent, I do not thereby concede that I am within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Nora M. Everett

Nora M. Everett  
Senior Vice President and Deputy General Counsel

## SIDLEY AUSTIN BROWN &amp; WOOD LLP

BEIJING	787 SEVENTH AVENUE	LOS ANGELES
	NEW YORK, NEW YORK 10019	
BRUSSELS	TELEPHONE 212 839 5300	NEW YORK
	FACSIMILE 212 839 5599	
CHICAGO	www.sidley.com	SAN FRANCISCO
DALLAS	FOUNDED 1866	SHANGHAI
GENEVA		SINGAPORE
HONG KONG		TOKYO
LONDON		WASHINGTON, D.C.

March 3, 2004

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392

Re: \$4,000,000,000 Secured Notes Registration Statement on Form S-3

Ladies and Gentlemen:

We have acted as special counsel to Principal Life Insurance Company, an Iowa life insurance company ("Principal Life") and Principal Financial Group, Inc., a Delaware corporation ("PFG"), in connection with the preparation and filing with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), by Principal Life and PFG, of a Registration Statement on Form S-3 (File Nos. 333-110499 and 333-110499-01), as amended by Amendment No. 1 filed with the Commission on December 19, 2003 and Amendment No.2 filed with the Commission on March 3, 2004 (the "Registration Statement"), including a prospectus (the "Prospectus") relating to secured notes (the "Notes") to be issued by newly formed common law trusts formed under the laws of the State of New York (each, a "Trust" and together the "Trusts"), a prospectus supplement relating to secured medium-term notes to be issued by the Trusts (the "Institutional Prospectus Supplement") and a prospectus supplement relating to Principal(R) Life CoreNotes(R) to be issued by the Trusts (the "Retail Prospectus Supplement"). The Registration Statement provides for: (i) the registration of up to \$4,000,000,000, or the equivalent amount in one or more foreign currencies, aggregate principal amount of Notes to be issued by the Trusts, with each Trust to issue Notes, pursuant to an Indenture (each an "Indenture") to be entered into between such Trust and Citibank, N.A., as indenture trustee (the "Indenture Trustee"), substantially in the form filed as an exhibit to the Registration Statement, (ii) the registration of up to \$4,000,000,000, or the equivalent amount in one or more foreign currencies, of Principal Life's funding agreements (each in the form filed as an exhibit to the Registration Statement, a "Funding Agreement") to be

SIDLEY AUSTIN BROWN & WOOD LLP IS A DELAWARE LIMITED LIABILITY PARTNERSHIP  
PRACTICING IN AFFILIATION WITH OTHER SIDLEY AUSTIN BROWN & WOOD PARTNERSHIPS

March 3, 2004

Page 2

sold to the Trusts in connection with the sale of Notes; and (iii) the registration of the guarantees (each a "Guarantee") to be issued by PFG to each Trust which fully and unconditionally guarantee the payment obligations of Principal Life under the Funding Agreements.

In furnishing this opinion, we have reviewed, and participated in the preparation of: (i) the Registration Statement, the Prospectus, the Institutional Prospectus Supplement and the Retail Prospectus Supplement, (ii) the Standard Trust Terms and the Standard Indenture Terms, each filed as an exhibit to the Registration Statement (together, the "Standard Terms"), (iii) the form Omnibus Instrument filed as an exhibit to the Registration Statement (the "Omnibus Instrument") that includes the Trust Agreement and the Indenture to be executed through the execution of the Omnibus Instrument (such agreements included in the Omnibus Instrument, including the Standard Terms incorporated therein, the "Agreements"), (iv) the form of the Funding Agreement filed as an exhibit to the Registration Statement, (v) the form of the Guarantee filed as an exhibit to the Registration Statement, and (vi) the Expense and Indemnity Agreements entered into between Principal Life and each of the Indenture Trustee, the custodian of the funding agreements and guarantees, the trust beneficial owner and U.S. Bank Trust National Association, as trustee (the "Trustee") which are all filed as exhibits to the Registration Statement.

We have also reviewed the corporate action of PFG and the trust action of the Trusts in connection with the issuance of the Guarantees and the Notes, respectively, and have examined, and have relied as to matters of fact upon, originals or copies certified or otherwise identified to our satisfaction, of such records, agreements, documents, and other instruments and such certificates or comparable documents of public officials and of officers and representatives of PFG and the Trusts, as applicable, and have made such other further investigations as we have deemed relevant and necessary as a basis for the opinions hereinafter set forth. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of all natural persons and the conformity with the original documents of any copies submitted to us for our examination. We have relied as to factual matters upon, and have assumed the accuracy of, representations, statements and certificates of or from public officials and of or from officers and representations of all persons whom we have deemed appropriate. We have assumed that the Indenture Trustee has the power and authority to authenticate the relevant Notes.

Based upon the foregoing, and subject to the qualifications and limitations stated herein, we are of the opinion:

1. Upon the execution, issuance, authentication and delivery of the relevant Notes as contemplated by the Registration Statement, such Notes will be the valid and binding obligations of such Trust, enforceable against such Trust in accordance with their terms.

March 3, 2004

Page 3

2. Upon the execution and delivery of the relevant Guarantee as contemplated by the Registration Statement, such Guarantee issued by PFG will be a valid and binding obligation of PFG, enforceable against PFG in accordance with its terms.

The above opinions with regard to the enforceability of the Notes and the Guarantee: (i) are qualified by the effects of bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and general principles of equity (regardless of whether such principles are considered in a proceeding in equity or at law), and (ii) are subject to the further qualification that, to the extent that the relevant Notes or relevant Guarantee are denominated in a currency other than United States dollars, a claim thereunder (or foreign currency judgment in respect to such claim) would be converted into United States dollars at a rate of exchange prevailing on a date determined pursuant to applicable law.

We express no opinion as to the laws of any jurisdiction other than the General Corporation Law of the State of Delaware and the laws of the State of New York, as currently in effect. This opinion is rendered as of the date hereof based upon the facts and law in existence on the date hereof. We assume no obligation to update or supplement this letter to reflect any circumstances which may hereafter come to our attention with respect to the opinion and statements set forth above, including any changes in applicable law which may hereafter occur.

We hereby consent to the filing of this letter as an exhibit to the Registration Statement and to the use of our name under the heading "Legal Matters" in the Prospectus forming a part thereof and to the incorporation by reference of this opinion and consent as exhibits to any Registration Statement filed in accordance with Rule 462(b) under the Act relating to the Notes. In giving such consent, we do not thereby concede that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Sidley Austin Brown & Wood LLP

## SIDLEY AUSTIN BROWN &amp; WOOD LLP

BEIJING	BANK ONE PLAZA	LOS ANGELES
	10 S. DEARBORN STREET	
BRUSSELS	CHICAGO, ILLINOIS 60603	NEW YORK
	TELEPHONE 312 853 7000	
CHICAGO	FACSIMILE 312 853 7036	SAN FRANCISCO
	www.sidley.com	
DALLAS		SHANGHAI
	FOUNDED 1866	
GENEVA		SINGAPORE
HONG KONG		TOKYO
LONDON		WASHINGTON, D.C.

March 3, 2004

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392

Re: \$4,000,000,000 Secured Notes Registration Statement on Form S-3

Ladies and Gentlemen:

We have acted as special counsel to Principal Life Insurance Company, an Iowa life insurance company ("Principal Life") and Principal Financial Group, Inc., a Delaware corporation ("PFG"), in connection with the preparation and filing with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), by Principal Life and PFG, of a Registration Statement on Form S-3 (File Nos. 333-110499 and 333-110499-01), as amended by Amendment No. 1 filed with the Commission on December 19, 2003 and Amendment No. 2 filed with the Commission on March 3, 2004 (the "Registration Statement"), including a prospectus (the "Prospectus") relating to secured notes (the "Notes") to be issued by newly formed common law trusts formed under the laws of the State of New York (each, a "Trust" and together the "Trusts"), a prospectus supplement relating to secured medium-term notes to be issued by the Trusts (the "Institutional Prospectus Supplement") and a prospectus supplement relating to Principal(R) Life CoreNotes(R) to be issued by the Trusts (the "Retail Prospectus Supplement"). The Registration Statement provides for: (i) the registration of up to \$4,000,000,000, or the equivalent amount in one or more foreign currencies, aggregate principal amount of Notes to be issued by the Trusts, with each Trust to issue Notes, pursuant to an Indenture (each an "Indenture") to be entered into between such Trust and Citibank, N.A., as indenture trustee, substantially in the form filed as an exhibit to the Registration Statement, (ii) the registration of up to \$4,000,000,000, or the equivalent amount in one or more foreign currencies, of Principal Life's funding agreements (each in the form filed as

SIDLEY AUSTIN BROWN & WOOD LLP IS AN ILLINOIS LIMITED LIABILITY PARTNERSHIP  
PRACTICING IN AFFILIATION WITH OTHER SIDLEY AUSTIN BROWN & WOOD PARTNERSHIPS



March 3, 2004

Page 2

an exhibit to the Registration Statement, a "Funding Agreement") to be sold to the Trusts in connection with the sale of Notes; and (iii) the registration of the guarantees to be issued by PFG to each Trust which fully and unconditionally guarantee the payment obligations of Principal Life under the Funding Agreements.

In furnishing this opinion, we have reviewed and participated in the preparation of: (i) the Registration Statement, the Prospectus, the Institutional Prospectus Supplement and the Retail Prospectus Supplement, (ii) the Standard Trust Terms and the Standard Indenture Terms, each filed as an exhibit to the Registration Statement (together, the "Standard Terms"), (iii) the form Omnibus Instrument filed as an exhibit to the Registration Statement (the "Omnibus Instrument") that includes the Trust Agreement and the Indenture to be executed through the execution of the Omnibus Instrument, (iv) the form of the Funding Agreement filed as an exhibit to the Registration Statement, and (v) such other records, documents, certificates or other instruments as in our judgment were necessary or appropriate to enable us to render the opinion expressed below. We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of all natural persons and the conformity with the original documents of any copies submitted to us for our examination. We have also assumed that the transactions described in the Registration Statement are performed in the manner described therein.

Based on the foregoing, and subject to the limitations, qualifications and assumptions set forth herein, the discussion set forth in the Institutional Prospectus Supplement and the Retail Prospectus Supplement under the heading "Material United States Federal Income Tax Considerations," to the extent describing matters of United States federal income tax law or legal conclusions with respect thereto, is our opinion.

In rendering the opinion set forth above, we have considered the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), regulations promulgated thereunder by the United States Treasury Department (the "Regulations"), pertinent judicial authorities, rulings and other administrative interpretations of the Internal Revenue Service and such other authorities as we have considered relevant. It should be noted that the Code, the Regulations and such judicial authorities, rulings, and administrative interpretations and other authorities are subject to change at any time and, in some circumstances, with retroactive effect; and any such change could affect the opinion stated herein.

This opinion is rendered as of the date hereof based upon the facts and law in existence on the date hereof. We assume no obligation to update or supplement this letter to reflect any circumstances which may hereafter come to our attention with respect to the opinion and statements set forth above, including any changes in applicable law which may hereafter occur.

We hereby consent to the filing of this letter as an exhibit to the Registration Statement and to the use of our name under the heading "Legal Matters" in the Prospectus forming a part thereof and to the incorporation by reference of this opinion and consent as exhibits to any

March 3, 2004  
Page 3

Registration Statement filed in accordance with Rule 462(b) under the Act relating to the Notes. In giving such consent, we do not thereby concede that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Sidley Austin Brown & Wood LLP

PRINCIPAL FINANCIAL GROUP, INC.

COMPUTATION OF EARNINGS TO FIXED CHARGES RATIO

FOR THE YEAR ENDED DECEMBER					
31,	-----				
-----	-----				
2003	2002	2001	2000	1999	-----
-----	-----				
----- (\$ in millions) 1.					
Income from continuing					
operations before income taxes					
.....	\$ 953.7	\$	\$	\$	
665.8	\$ 464.1	\$ 840.2	\$1,069.1		
2. Interest expense					
.....	104.3				
99.2	96.7	116.8	145.4		
Interest factor of rental					
expense ..... 5.0 8.9 10.3					
16.1	10.5				
4. Undistributed					
income from equity investees					
.....					
(18.3)	4.3	(17.4)	(27.1)		
(99.7)					
----- 5.					
Earnings before interest					
credited on investment					
products .....					
1,044.7	778.2	553.7	946.0		
1,125.3					
6. Interest credited					
on investment products					
.....					
735.7	743.4	773.1	723.5	709.5	
----- 7. Earnings					
.....					
\$1,780.4	\$1,521.6	\$1,326.8			
\$1,669.5	\$1,834.8	=====			
=====	=====	=====			
=====	=====	=====			
===== 8. Interest expense					
.....	\$				
104.3	\$ 99.2	\$ 96.7	\$ 116.8		
145.4					
9. Interest factor of					
rental expense ..... 5.0 8.9					
10.3	16.1	10.5			
10. Preferred					
stock dividend requirements of					
majority-owned subsidiaries					
(non-intercompany)					
.....	1.2	0.4	--		
----- 11. Fixed					
charges before interest					
credited on investment					
products .....					
110.5					
108.5	107.0	132.9	155.9		
12. Interest credited on					
investment products					
.....					
735.7	743.4	773.1	723.5	709.5	
----- 13. Fixed					
charges					
.....	\$				
846.2	\$ 851.9	\$ 880.1	\$ 856.4		
\$ 865.4	=====	=====			
=====	=====	=====			
===== 14.					
Ratio of earnings to fixed					
charges before interest					
credited on investment					
products (Line item 5/Line					
item 11) .. 9.5 7.2 5.2 7.1					
7.2					
15. Ratio of earnings to					
fixed charges (Line item					
7/Line item 13) .....					
2.1	1.8	1.5	1.9	2.1	



CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in the Pre-Effective Amendment No. 2 to the Registration Statement (Form S-3, File Nos. 333-110499 and 333-110499-01) and related Prospectus of Principal Financial Group, Inc. and Principal Life Insurance Company for the registration of \$4,000,000,000 Secured Medium-Term Notes and to the incorporation by reference therein of our reports dated January 30, 2004, with respect to the consolidated financial statements and schedules of Principal Financial Group, Inc. included in its Annual Report (10-K) for the year ended December 31, 2003, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Des Moines, Iowa  
March 1, 2004

BEIJING	SIDLEY AUSTIN BROWN & WOOD LLP	LOS ANGELES
BRUSSELS	BANK ONE PLAZA	NEW YORK
CHICAGO	10 S. DEARBORN STREET	SAN FRANCISCO
DALLAS	CHICAGO, ILLINOIS 60603	SHANGHAI
GENEVA	TELEPHONE 312 852 7000	SINGAPORE
HONG KONG	FACSIMILE 312 853 7036	TOKYO
LONDON	www.sidley.com	WASHINGTON, D.C.
	FOUNDED 1866	

March 3, 2004

Principal Life Insurance Company  
711 High Street  
Des Moines, Iowa 50392

Principal Financial Group, Inc.  
711 High Street  
Des Moines, Iowa 50392

Re: \$4,000,000,000 SECURED NOTES REGISTRATION STATEMENT ON FORM S-3 - -  
CONSENT TO REGISTRATION STATEMENT REFERENCE

This letter will serve as our consent to the reference in the registration statement, as amended, on Form S-3 (File Nos. 333-110499 and 333-110499-01) to be filed by Principal Life Insurance Company and Principal Financial Group, Inc. with the Securities and Exchange Commission, to the legal opinion of Sidley Austin Brown & Wood LLP, as counsel to Principal Life Insurance Company and Principal Financial Group, Inc., regarding priority of claims with respect to funding agreements pursuant to Iowa Code Section 507C.42

Very truly yours,

/s/ SIDLEY AUSTIN BROWN & WOOD LLP

-----  
SIDLEY AUSTIN BROWN & WOOD LLP

SIDLEY AUSTIN & WOOD LLP IS AN ILLINOIS LIMITED LIABILITY PARTNERSHIP PRACTICING  
IN AFFILIATION WITH OTHER SIDLEY AUSTIN BROWN & WOOD PARTNERSHIPS

