



June 29, 2006

# Annual MTN/GIC Analyst Conference



WE'LL GIVE YOU AN EDGE<sup>SM</sup>

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Principal Financial Group  
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# Forward Looking Statements

Certain statements made by Principal Financial Group, Inc. and its subsidiaries ("the company") which are not historical facts may be considered forward-looking statements, including, without limitation, statements as to sales targets, sales and earnings trends, and management's beliefs, expectations, goals and opinions. These statements are based on a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Future events and their effects on the company may not be those anticipated, and actual results may differ materially from the results anticipated in these forward-looking statements.

The risks, uncertainties and factors that could cause or contribute to such material differences are discussed in the company's reports filed with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2005 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. These risks and uncertainties include without limitation: volatility of financial markets; investment portfolio risks; competitive factors; decrease in ratings; interest rate changes; inability to attract and retain sales representatives; inadequate reserving on future obligations; funding on closed block assets; changes in laws, regulations or accounting standards; litigation and regulatory investigations; and foreign currency exchange rate fluctuations.

Principal Life Insurance Company ("PLIC"), as statutory issuer and depositor, and Principal Financial Group, Inc. ("PFG") have filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents PLIC and PFG have filed with the SEC for more complete information about PLIC, PFG, and this offering. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, PLIC, PFG, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request by calling toll-free 1-800-986-3343.



## Use of Non-GAAP Financial Measures

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

We use a number of non-GAAP financial measures that management believes are useful to investors because they illustrate the performance of our normal, ongoing operations which is important in understanding and evaluating our financial condition and results of operations. While such measures are also consistent with measures utilized by investors to evaluate performance, they are not a substitute for U.S. GAAP financial measures. Therefore, we have provided reconciliations of the non-GAAP financial measures to the most directly comparable U.S. GAAP financial measure as a handout accompanying this presentation. We adjust U.S. GAAP financial measures for items not directly related to ongoing operations. However, it is possible that these adjusting items could recur in the future. Management also uses non-GAAP financial measures for goal setting, to determine employee and senior management awards and compensation, and to evaluate performance on a basis comparable to that used by securities analysts.

We also use a variety of other measures that we do not consider to be non-GAAP financial measures. These are operational measures and do not have U.S. GAAP counterparts. Assets under management is an example of an operational measure.

GICs, funding agreements and other products issued by Principal Life Insurance Company are obligations of Principal Life and are not obligations of Principal Financial Group, Inc., unless expressly guaranteed by Principal Financial Group, Inc.



# Agenda

**9:30AM Welcome**

Barb McKenzie, *Chief Operations Officer, Global Asset Management*

**9:35AM Principal Financial Group Overview**

Dan Houston, *Executive Vice President*

**10:20AM Financial Overview and Risk Management**

Ellen Lamale, *Senior VP and Chief Actuary*

**10:50AM Investment Portfolio**

Julia Lawler, *Senior VP and CIO*

**11:15AM Principal Global Investors**

Barb McKenzie, *Chief Operations Officer, Global Asset Management*

**11:30AM Lunch**



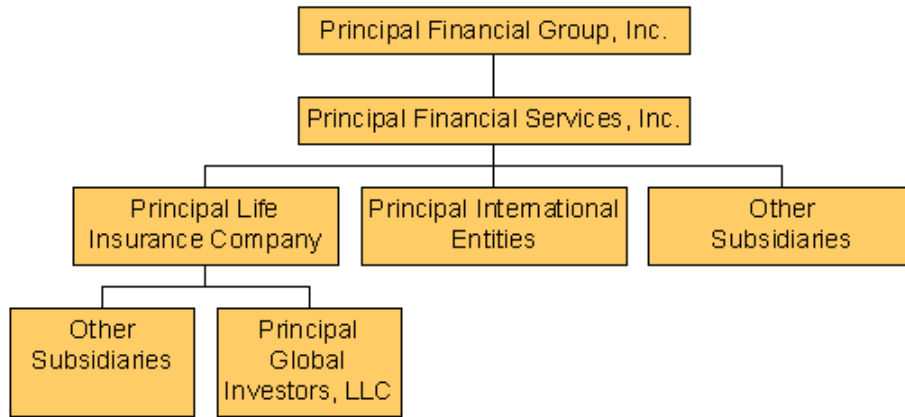


# Welcome

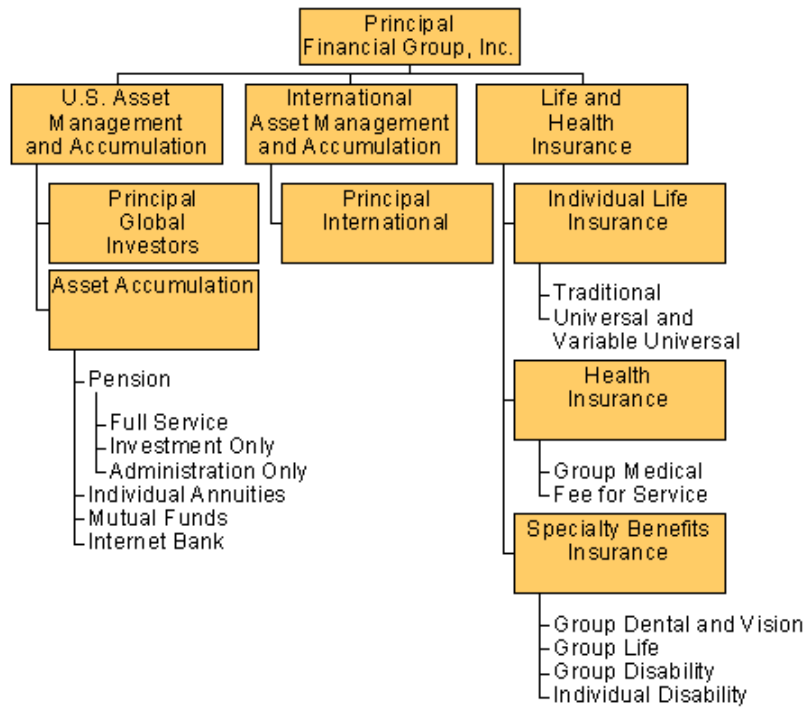
- Thank you for our leading position in GIC and MTN markets
- We are excited about the development of our business; hope to
  - Communicate some of that excitement
  - Demonstrate our reliability and good credit
- Will briefly touch on our asset management capabilities



# Principal Financial Group Simplified Organizational Structure



# Principal Financial Group Financial Reporting Structure





**Company Overview:**

Leading Fortune 500 Financial Services Company



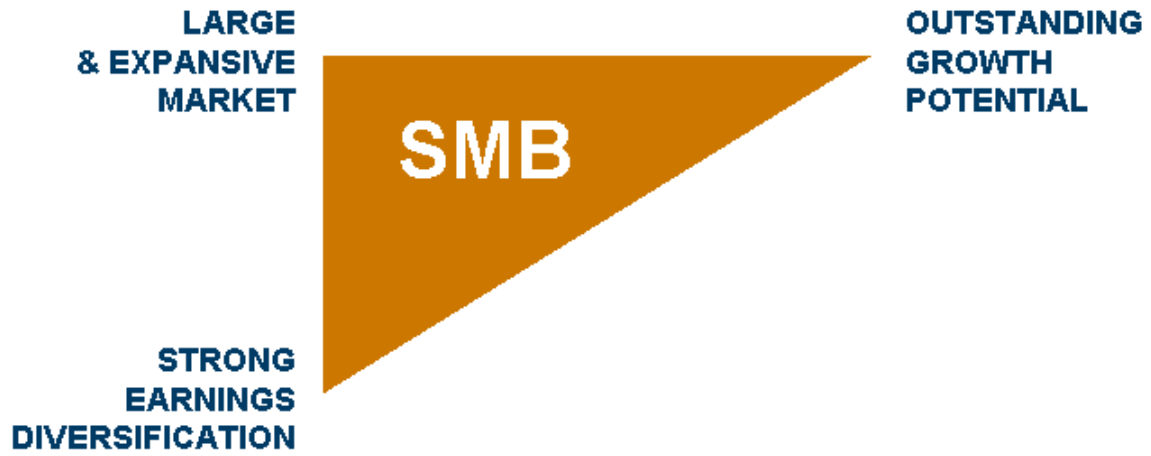
Leading Fortune 500 Financial Services Company

## Proven Growth Strategy

- **Small to medium business (SMB) market leadership & expertise**
- **Retirement-centric focus** within complete employee benefit solutions package
- **Multi-channel distribution**

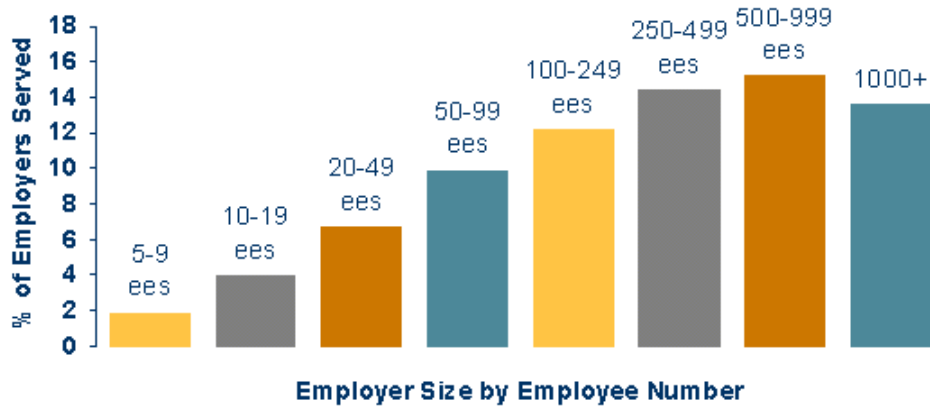
Leading Fortune 500 Financial Services Company

## SMB-focused



## Leading Fortune 500 Financial Services Company SMB-focused

### SMB Market Penetration for The Principal\*

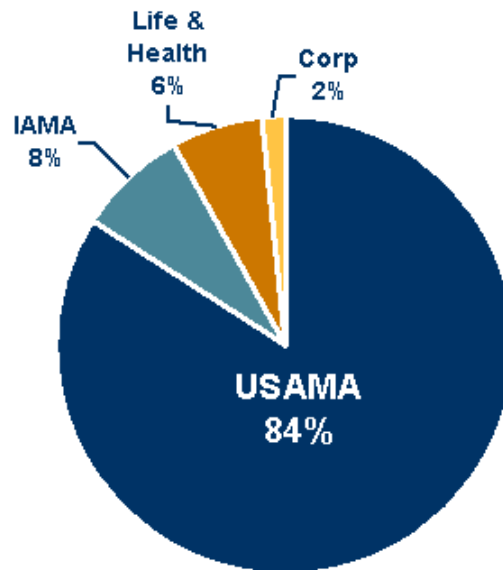


## Relationships with over 100,000 employers

\*February 2006 forecasts from Economy.com are used for the number of firms in the U.S. A firm is a business organization or entity consisting of one domestic establishment (location) or more under common ownership or control. All establishments of subsidiary firms are included as part of the owning or controlling firm.



Leading Fortune 500 Financial Services Company  
**Retirement-centric**



**\$205.3 billion Assets Under Management (AUM)**  
as of 3/31/06





Leading Fortune 500 Financial Services Company  
**A multichannel approach**

**At The Workplace**



- Work Secure
- Retire Secure

**Over the Phone**



- Principal Connection
- Contact centers

**Via the Internet**



- Principal.com

**Through Producers**



- Career
- Independent
- Alliances

**Through Print**



- Marketing communication/education materials
- Direct marketing
- *Plan Ahead. Get Ahead Magazine*



Leading Fortune 500 Financial Services Company

Full Service Accumulation

## Alliance Results

	2004	2005	Change
Sales	\$1.807 B	\$2.329 B	+28.8%

Leading Fortune 500 Financial Services Company

## Distribution

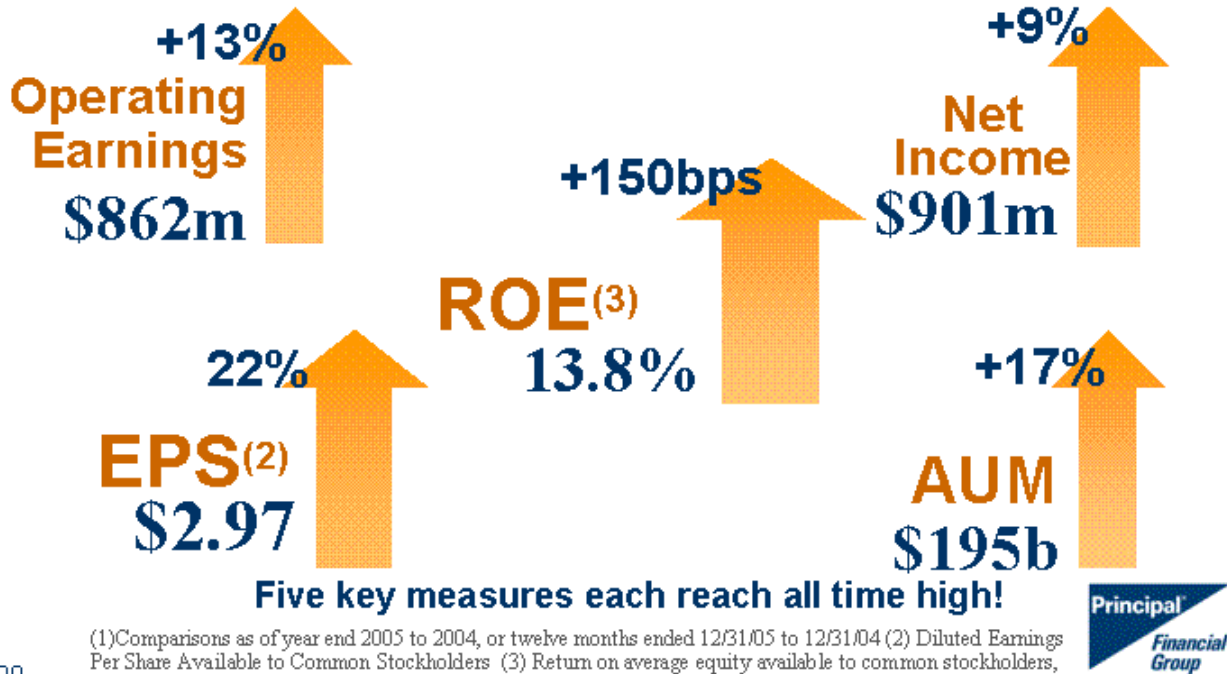
Advisors recognize The Principal® as a market leader\*

Long-Term Player	Shelf Space	Best Overall Package
<b>#1 = The Principal</b>	#1 = American Funds	#1 = Mass Mutual
#2 = ING	#2 = Hancock	#2 = Hancock
#3 = Fidelity	<b>#3 = The Principal</b>	<b>#3 = The Principal</b>
#4 = American Funds	#4 = Nationwide	#4 = American Funds
#5 = MassMutual	#5 = ING	#5 = ING

\*Source: Brightwork Partners 2005 Advisor Study.  
Universe of approximately 60 providers.

# Recent Financial Results

# Satisfied customers drove strong Principal Financial Group, Inc. performance<sup>(1)</sup> in 2005...



(1) Comparisons as of year end 2005 to 2004, or twelve months ended 12/31/05 to 12/31/04 (2) Diluted Earnings Per Share Available to Common Stockholders (3) Return on average equity available to common stockholders, excluding other comprehensive income (OCI)

## ...strong performance\* for key businesses and operating segments ...

- **Record** earnings for all three operating segments
- **Record** assets under management for USAMA and IAMA
- **Record** account values for USAMA
- **Record** sales of key retirement & investment products
- **Record** institutional investment mandates
- **\$100 billion** of individual life insurance in force
- **\$1 billion** of premiums and fees for Specialty Benefits
- **44% growth** in wellness lives
- **16% growth** in group medical covered members in target states
- **\$15 billion** of assets under management for Principal International

Promises Made, Promises Kept  
**Principal Financial Group, Inc.**<sup>(1)</sup>

	'01	'02	'03	'04	'05	CAGR <sup>(2)</sup>
<b>Operating Earnings (\$M)</b> <sup>(3)</sup>	\$577	\$579	\$668	\$765	\$862	11%
<b>Net Income (\$M)</b> <sup>(3)</sup>	\$359	\$142	\$746	\$826	\$901	26%
<b>Avg. # Shares (M)</b> <sup>(3)</sup>	362	351	327	315	290	-5%
<b>EPS</b> <sup>(3)(5)</sup>	\$1.59	\$1.65	\$2.04	\$2.43	\$2.97	17%
<b>AUM (\$B)</b> <sup>(4)</sup>	\$98.1	\$109.9	\$142.0	\$167.0	\$195.2	19%
<b>ROE</b> <sup>(3)</sup>	8.9%	9.1%	10.9%	12.3%	13.8%	+490 bps
<b>Dividends per share</b>	NA	\$0.25	\$0.45	\$0.55	\$0.65	38%

(1) Excludes BT Financial Group & Principal Residential Mortgage (2) Compound Annual Growth Rate (3) Twelve months ended 12/31 (4) As of 12/31 (5) Diluted Earnings Per Share Available to Common Stockholders



Promises Made, Promises Kept:  
**Retirement Services<sup>(1)</sup>**

	'01	'02	'03	'04	'05	CAGR <sup>(2)</sup>
Account Values (\$B) <sup>(3)</sup>	\$42.9	\$42.9	\$55.9	\$68.9	\$77.3	16%
Deposits (\$B) <sup>(4)</sup>	8.5	11.2	12.6	13.3	15.4	16%
Organic Sales (\$B) <sup>(4)</sup>	3.3	4.6	5.6	5.2	6.1	17%
Net Cash Flow <sup>(4)</sup>	1.9	2.9	4.9	3.8	3.3	15%
Member Asset Retention <sup>(4)</sup>	49%	51%	54%	54%	52%	NA
S&P 500 Index incl. Dividends <sup>(4)</sup>		-22%	29%	11%	5%	4%

(1) Pension full service accumulation (2) Compound Annual Growth Rate  
(3) As of 12/31 (4) Twelve months ended 12/31





## Future Growth Opportunities

- Retirement services leadership
- Total retirement solutions
- Worksite marketing (Baby Boomers)
- Global opportunities

Future Growth Opportunities:  
**Retirement services leadership**

Products	Ranking	Principal Financial Group Scope
Corporate DC plans <sup>(1)</sup>	#1 of 13	31,099 plans
Bundled 401(k) plans <sup>(2)</sup>	#1 of 38	25,694 plans
401(k) plans <sup>(3)</sup>	#3 of 60	25,694 plans
Defined benefit <sup>(4)</sup>	#1 of 35	2,799 plans
IO GICs <sup>(5)</sup>	#3 of 15	\$5.7 billion
FA-Backed Notes <sup>(6)</sup>	#4 of 30	\$11.7 billion
Plan Termination annuities <sup>(7)</sup>	#3 of 11	\$43 million
ESOP – leading provider <sup>(8)</sup>	#1 of 10	503 employers
Deferred Comp. NQ <sup>(9)</sup>	#1 of 38	1,634 plans

(1)Spectrem 10/04; (2)Treasury & Risk Management Buyer's Guide 2005, (3)CFO Buyer's Guide 06/05; (4)Investment Advisor, "Retirement Plan Providers Directory", November 2005 (number above is subset of total reported in survey by Principal Financial Group); (5)LIMRA 09/05; (6)S&P 03/06, (7)LIMRA 09/05; (8) PlanSponsor 06/04, (9)PlanSponsor 12/05



Future Growth Opportunities

## Retirement services leadership

- **Portfolio depth & breadth**
- **Deliver best in class service**
- **Provide award-winning education**
- **Unique technology platform**
- **Exceptional distribution reach**
- **Investment management excellence**



Future Growth Opportunities  
**Investment excellence**

Retirement Assets in Top Two Morningstar Quartiles*	
1yr	<b>92%</b>
3yr	<b>89%</b>
5yr	<b>82%</b>



Best Overall Fund Group (Lipper, March 2005) • Best Mixed Equity Fund Group (Lipper, March 2005)



# Total Retirement Solutions (TRS) Provider

## Total retirement solutions provider

- Reduce administrative burdens
- Cost savings
- Efficiency and time savings
- Expanded resources to meet plan sponsor fiduciary obligations
- Speeds service to employer and employee
- Easier for employers and employees to plan



## Total Retirement Suite<sup>SM</sup> sales results

TRS	2004	2005	Change
Sales	\$1.270 B	\$2.090 B	+64.5%
Plans	77	183	+137.6%

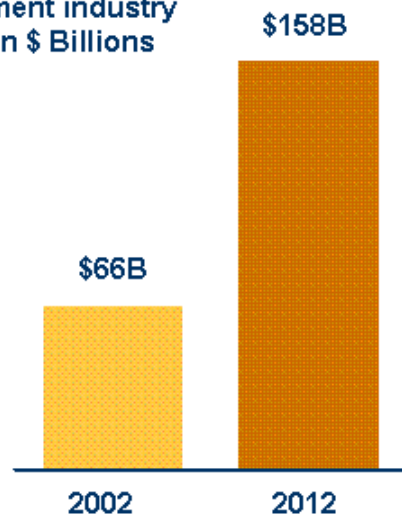
Total Retirement Suite contributed to 34% of total Full Service Accumulation sales results in 2005 (up from 24% in 2004).

# Worksite Marketing



## Baby Boomers are driving unprecedented opportunity

\*Retirement industry  
Profits in \$ Billions



Boomer market generated over \$66 billion in profits in 2002, and profits are expected to grow to nearly \$158 billion by 2012

\*Source: 2005, McKinsey & Company, Inc.



## The worksite is the place to build relationships

- Meet Boomers where they are, in the worksite, and do it efficiently
- Don't wait until benefit events to establish relationships
- Reach broadly across employee base



- Less than one-third of eligible employees use all voluntary benefits available to them
- Only three-quarters of eligible employees enroll in 401(k) plans
- On average, people begin thinking about what to do with savings 8 years prior to retirement – for Boomers, that means now!
- About 44% of financial advisors have minimum account size for customers they will serve



The Principal Edge:

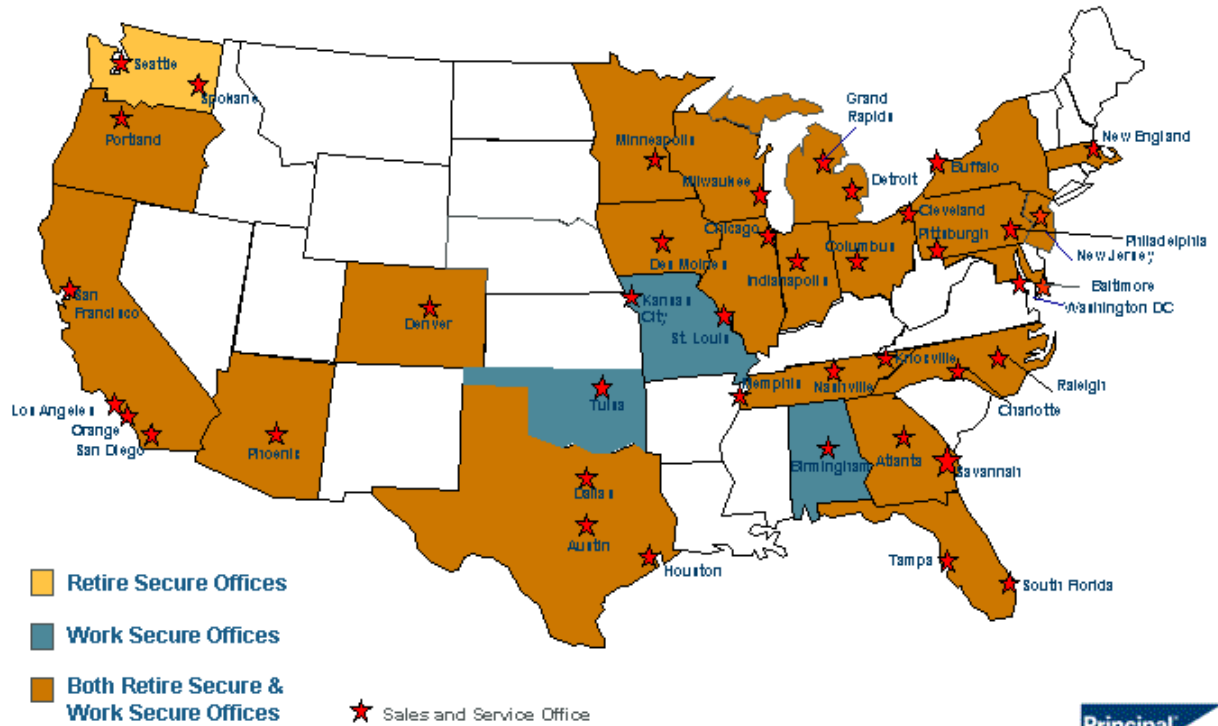
## Help for “the rest of us”

Customer-focused solution	Ability to transform employee benefits
<ul style="list-style-type: none"><li>• Income management: Income IRA, Income Manager; Income Provider</li><li>• Total retirement solutions (employer)</li><li>• Align Individual Life operations to needs of business</li></ul>	<ul style="list-style-type: none"><li>• Bundled retirement solutions</li><li>• Consumer-driven Health Care</li><li>• Worksite distribution (RetireSecure<sup>SM</sup>; WorkSecure<sup>SM</sup>)</li><li>• Expanding voluntary worksite benefits</li></ul>



# Innovative Worksite Approach

## Expansive Worksite Connection



Revised 06/06/2006



## Worksite is getting results\*

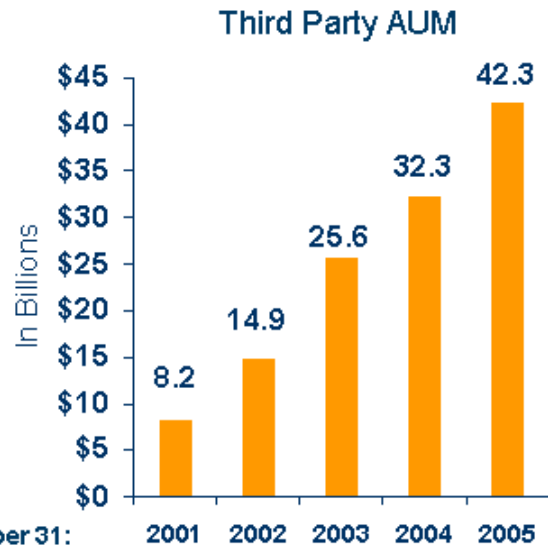
	With Retire Secure	With Work Secure
<b>Increase in close ratio of contract sales to employers</b>	<b>+100%</b>	<b>+150%</b>
<b>Increase in employee participation</b>	<b>+14%</b>	<b>+63%</b>
<b>Increase in employee average deferral rate</b>	<b>+23%</b>	<b>n/a</b>
<b>Increase in average annual premium per participant</b>	<b>n/a</b>	<b>+68%</b>

# Global Opportunities

Global Opportunities

# Global Asset Management Expertise

- Ranked 5th out of 489 managers in New Assets Gained in 2005 <sup>(1)</sup>
- Record 111 new mandates in 2005 representing \$6.9 billion in assets
- 38% increase in non-affiliated assets from 12/31/04 through 12/31/05
- Manage money for 9 of Top 25 U.S. pension funds<sup>(2)</sup>



(1)"2005 U.S. Manager Ranking by Assets Gained, League Table," *Money Management Letter*, March 13, 2006 (2)PENSIONS & INVESTMENTS "P&I 1,000" report, Jan 2006.



## Effective Use of Capital



Share repurchases for three months ended 3/31/06 were \$162.26 million. On May 16, 2006 Principal Financial Group announced a share repurchase of up to \$500 million, and on May 22, 2006 announced it had executed an accelerated share repurchase for this \$500 million of shares.





# Effective Use of Capital

## **Strategic Acquisitions & Partnerships**

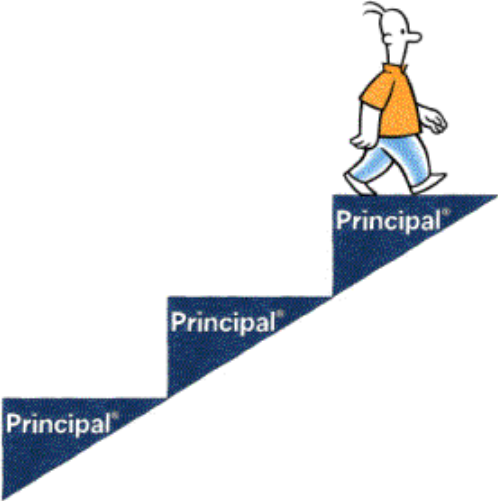
- China Construction Bank (mutual fund JV)
- ABN AMRO Trust Services (DC)
- Columbus Circle (Growth equities)
- Dao Heng (Hong Kong mutual funds)
- BCI Group (DB and ESOP)
- Post Advisory Group (High yield fixed income)
- The Molloy Companies (Health/Wellness)

The Principal®:  
**Giving Investors An Edge**

- Truly unique financial services organization
- Special expertise in serving SMB
- Leadership position in U.S. retirement services
- Advantaged by global privatization of retirement systems
- Worksite opportunities for Baby Boomers and beyond
- Strong capital position



# Financial Highlights



# Financial Objectives

- Grow Earnings
- Manage Capital
- Control Risk
- Increase Shareholder Value

## Product Scope Enhances Earnings Diversity, Increases Growth Potential

Revenue Basis	Product	SMB		Retail	Institutional
		Employer	Employee		
Fee	Defined Cont - Variable				
	Defined Benefit				
	Mutual Funds				
	Ind Ann - Variable				
	Bank				
	Asset Management				
	ASO				
Spread	Defined Cont - Guar				
	FA-Backed Securities				
	Defined Benefit - Payout				
	Ind Ann - Fixed				
	Asset Securitization				
	Cash Value/Life				
Risk	Life				
	Medical				
	Dental/Vision				
	Disability				

Retirement Services



Life and Health



Investment Mgmt



Principal Financial Group Operating Earnings  
(by Segment and Net Income)  
**Strong Growth in Earnings**

For twelve months ended (dollars in millions)	12/31/03	12/31/04	12/31/05
U.S. Asset Management & Accumulation	\$422.6	\$499.0	\$538.4
Int'l Asset Management & Accumulation	34.5	40.3	71.0
Life & Health Insurance	241.2	256.2	274.4
Mortgage Banking	(18.1)	(10.3)	---
Corporate & Other	<u>(12.5)</u>	<u>(20.4)</u>	<u>(21.4)</u>
<b>Operating Earnings(1)</b>	<b>\$667.7</b>	<b>\$764.8</b>	<b>\$862.4</b>
Net realized/unrealized cap gains(losses)	(49.3)	(62.3)	(20.6)
Other after-tax adjustments(2)	<u>127.9</u>	<u>123.1</u>	<u>59.5</u>
<b>Net Income Available to Common Stockholders</b>	<b>\$746.3</b>	<b>\$825.6</b>	<b>\$901.3</b>

(1) Defined as net income before net realized capital gains and other after-tax adjustments.

(2) Includes income(loss) from discontinued operations, estimated gain on disposal of discontinued operations, change in estimated loss on disposal of discontinued operations, changes in reserves established for IRS audit issues, and the effect of accounting changes related to implementation of SOP 03-1 and FIN 46.



Principal Financial Group Operating Earnings  
(by Segment and Net Income)  
**Strong Growth in Earnings**

For three months ended (dollars in millions)	3/31/05	3/31/06	Change
U.S. Asset Management & Accumulation	\$138.6	\$157.8	13.9%
Int'l Asset Management & Accumulation	9.5	17.6	85.3%
Life & Health Insurance	69.5	70.4	1.3%
Corporate & Other	(8.4)	(5.6)	33.3%
<b>Operating Earnings(1)</b>	<b>\$209.2</b>	<b>\$240.2</b>	<b>14.8%</b>
Net realized/unrealized cap gains(losses)	(3.7)	24.9	NA
Other after-tax adjustments <sup>Ⓜ</sup>	---	20.6	NA
<b>Net Income Available to Common Stockholders</b>	<b>\$205.5</b>	<b>\$285.7</b>	<b>39.0%</b>

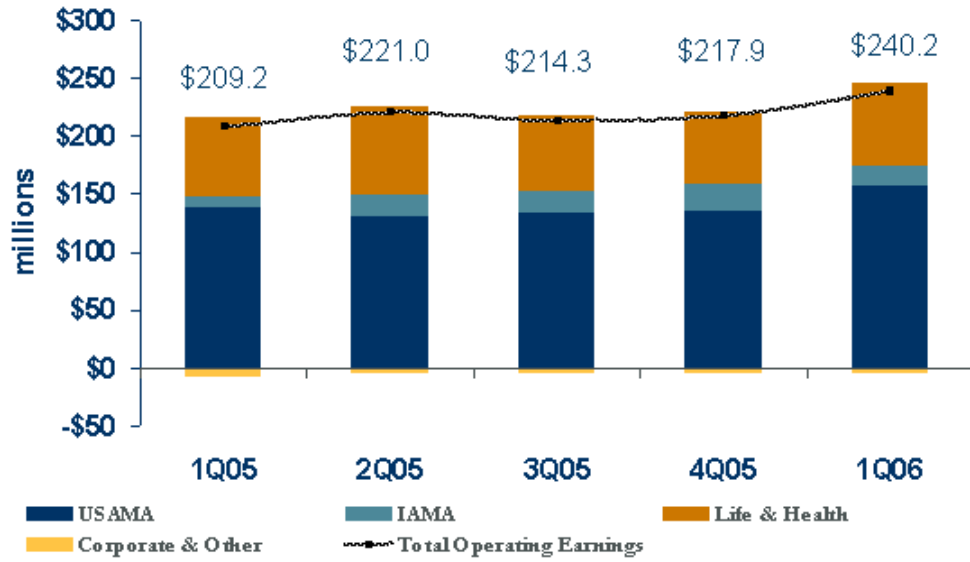
(1) Defined as net income before net realized capital gains and other after-tax adjustments.  
(2) Includes a favorable court ruling on a contested IRS issue.



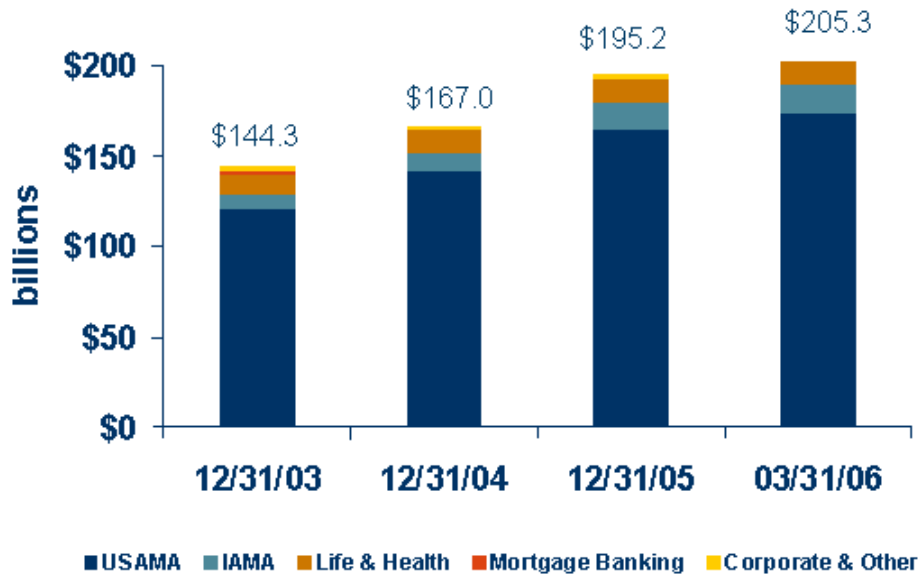


Principal Financial Group Operating Earnings  
(by Segment)

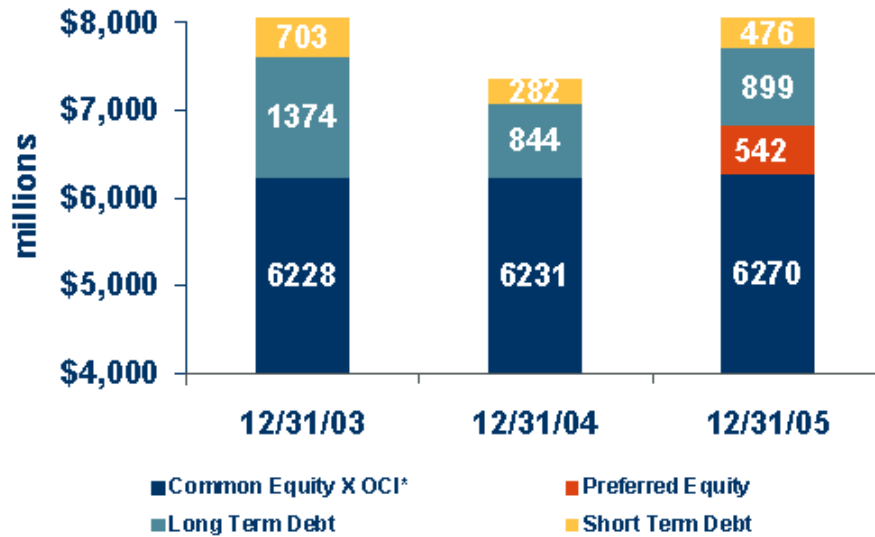
## Diversity Produces Growth & Stability



## Principal Financial Group Assets Under Management **AUM is a Driver of Earnings Growth**



## Principal Financial Group Capital Structure Managing Capital Efficiently



\*For years ended December 31, 2003, 2004 and 2005, common equity was \$7,400 million, \$7,544 million and \$7,807 million, respectively



Principal Financial Group  
**Actual Return on Average Equity<sup>(1)</sup>**  
 x-OCI Trailing Twelve Months 3/31/06

Operating Segment	Operating Earnings	Average Equity	Return on Average Equity
USAMA	\$557.6	\$2,895.8	19.3%
IAMA	\$79.1	\$881.3	9.0%
Life & Health	\$275.3	\$2,162.8	12.7%
Corporate & Other	\$(18.6)	\$417.2	N/M
<b>Total Principal Financial Group</b>	<b>\$893.4</b>	<b>\$6,357.1</b>	<b>14.1%</b>

(1)equity available to common stockholders



Principal Life Insurance Company  
**Summary Financial Information**

(US\$mm)	Twelve Months Ended December 31,		Three Months Ended March 31,	
	2004	2005	2005	2006
<b>Operating Revenue<sup>(1)</sup></b>	<b>\$7,769</b>	<b>\$8,326</b>	<b>\$1,981</b>	<b>\$2,165</b>
<b>Total Revenue<sup>(2)</sup></b>	<b>\$7,647</b>	<b>\$8,296</b>	<b>\$1,978</b>	<b>\$2,213</b>
<b>Operating Earnings<sup>(3)</sup></b>	<b>\$745</b>	<b>\$808</b>	<b>\$202</b>	<b>\$230</b>
<b>Net Income<sup>(2)</sup></b>	<b>\$768</b>	<b>\$832</b>	<b>\$200</b>	<b>\$275</b>
<b>Total Assets<sup>(2)</sup></b>	<b>\$109,879</b>	<b>\$119,999</b>	<b>\$109,563</b>	<b>\$124,458</b>
<b>Total Equity<sup>(4)</sup></b>	<b>\$5,354</b>	<b>\$6,228</b>	<b>\$5,563</b>	<b>\$6,088</b>
<b>Surplus &amp; AVR<sup>(5)</sup></b>	<b>\$3,644</b>	<b>\$4,311</b>	<b>\$3,851</b>	<b>\$4,118</b>

(1) Defined as total GAAP revenues including operating revenues from discontinued real estate and excluding net realized capital gains and related fee adjustments. (2) Presented on a GAAP basis. (3) Defined as net income before net realized capital gains and other after-tax adjustments. (4) Equity excluding accumulated other comprehensive income (loss). (5) Presented on a statutory basis.



Principal Life Insurance Company  
**Financial Strength Ratings**

- Principal Life Insurance Company Financial Strength Ratings
  - S&P “AA”, Very Strong (3rd highest of 21 levels)
  - Moody’s “Aa2”, Excellent (3rd highest of 21 levels)
  - A.M. Best “A+”, Superior (2nd highest of 16 levels)
  - Fitch “AA”, Very Strong (3rd highest of 24 levels)

Note: All ratings have stable outlooks.



Principal Financial Group  
**Stated Targets**

	Target	2005 Actual
EPS Growth <sup>(1)</sup>	11-13%	22%
Return on Average Equity <sup>(2)</sup>	50bp growth/yr	13.8%
Debt to Equity	20-25%	20%

**Principal Life Insurance Company**  
**Measures Important to Principal Life**

Rating Agency and Internal measures:

- GIC/FA Exposure (Investment Only)
- Capital Adequacy
- Liquidity





# Risk Management at The Principal<sup>®</sup>



## Risk Management at Principal Financial Group

- Solid Tone at Top/Board and Senior Management have knowledge of and accountability for risks
- Coordinated effort to understand and manage the risk profile of the entire organization
- Entire organization is included
- All sources of risk considered
- Strong link to organization's key strategies, financial objectives and business planning process
- We have processes and tools in place to identify, monitor, and manage our risks
- Business unit and Corporate staff have knowledge and expertise

## How We Think About Risks:

- True economic/financial
- Appropriate accounting treatment and controls
- Headline/reputational
- Litigation/regulatory
- Pure risk (owned property and equipment)/business disruption

# Broad Categories of Risks

## at the Principal Financial Group

Insurance/Actuarial	Asset/Liability Matching (ALM)	Legal/Regulatory
Mortality	Mismatch Risk	Lawsuits
Morbidity	Reinvestment Risk	Compliance
Other Assumptions		
Pricing Errors		
	Operational	Investment
	Technology	Credit
	Processing	Counterparty
	Administration	Derivatives
	Business Continuity	
	Reputation	HR
	Analysts, Investors	Employee Retention
	Regulators	Morale
	Rating Agencies	
	Customers	Property/Equipment
		Home Office buildings, furniture
		Aircraft
		Computers
Financial/Strategic Planning		
Capital (Allocation, Budgeting, Management)		
Liquidity		
Tax		
Reinsurance		
Financial Reporting/Forecasting		
Disclosure		
Fx Risk		
M&A		
Earnings volatility		



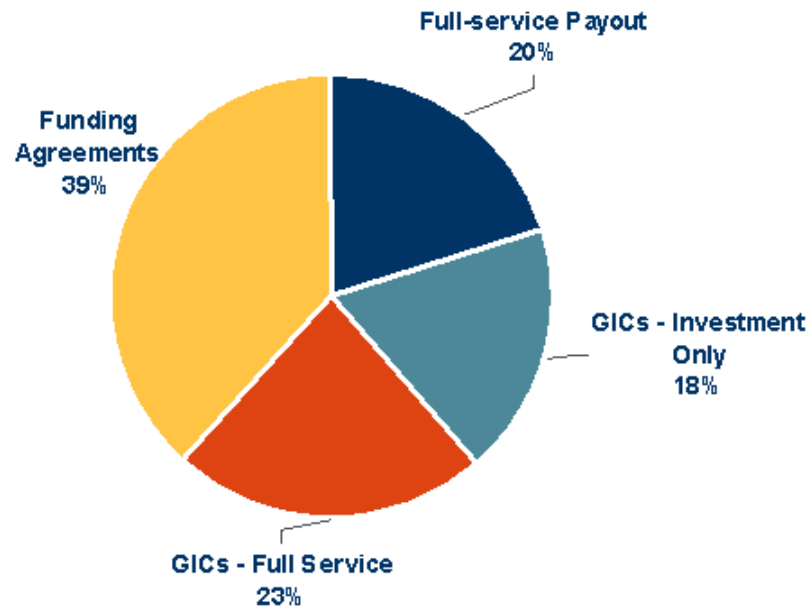
# Management of Risks

## at the Principal Financial Group

Insurance/Actuarial	Legal/Regulatory	Reputation
Experience Studies	Corporate Ethics	Investors Relations
Product development processes	Corporate Governance	Government Relations
Peer Review	Lobbying Efforts	Corporate Relations
Financial Analysis	Contract Language	Corporate Governance
Reinsurance	Compliance Officers	Business Unit/Corporate integrity and risk management practices
Local Pricing, Product Committees	Business Practices	
Standards around pricing, reserving, assumptions, stress testing, standards		<b>Investment</b>
	<b>Asset/Liability Matching (ALM)</b>	Credit Research/Analysis
<b>Financial/Strategic Planning</b>	Segment ALM teams	Credit Oversight Committee
Corporate Model/Business Models	ALM (immunization, CFT)	Derivatives oversight Committee
Liquidity quarterly studies, benchmarks	Derivatives	Asset Diversification
Reserve Certifications	Segment 130 Risk Committee	Counterparty Analysis, Guidelines/Limits Collateral
	<b>Operational Risks</b>	<b>HR</b>
Corporate Finance Committee	SOX (404)	Performance Management
Reinsurance Database/Analysis	Controls	Development and Training
Hedging	Business Risk Consulting	Succession Planning
Local Finance, Strategic Committees	Business Resumption Plans	Total Compensation (Salary, Benefits, Amenities)
Ratios, Metrics (debt/Capital, Liquidity, RBC, S&P, ROE)		
<b>Property/Equipment</b>		
Insurance Programs		
Maintenance		
61 Security		



Principal Financial Group  
**Non-Par Pension Business Liabilities**  
As of March 31, 2006



## Non-Par Pension Business Risk Management

# Interest Rate Risk

- Tools used
  - Duration matching
  - Key rate duration matching
  - Daily hedging
  - Scenario analysis
- Disciplined to stay within mismatch allowances
  - .25 year duration
  - .10 year key rate
- Employ various methods to correct duration mismatches if they occur
  - Sell assets
  - Change duration targets for new investments
  - Use derivatives



## Non-Par Pension Business Risk Management

# Liquidity Risk

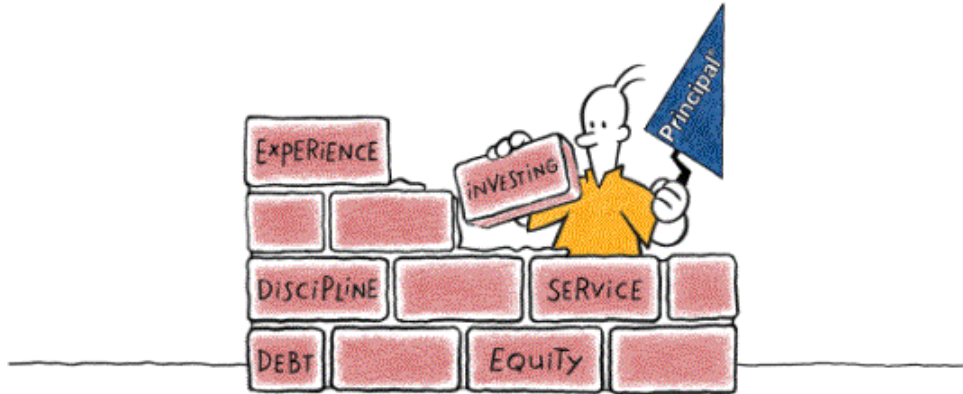
- Processes in place at both business unit and overall corporate level
- Analysis performed quarterly
- We carefully watch external measures
  - S&P liquidity model, internal target 260%
  - Moody's liquidity model, internal target 1.5 to 2.0
- Internal measure called Dynamic Staging Analysis
  - Internal projection for liquid liabilities and assets over a 15 month time frame

## Summary

- The Principal Financial Group is risk aware, risk astute, and diligent about risk management
- We are in the risk business and willing to take risks – on an informed basis
- Increased complexity combined with a lower tolerance for error indicate a continued need for commitment to risk management



# Investment Portfolio Overview



\*All data in this section of the presentation excludes assets that are not part of Principal Life Insurance Company consolidated assets.

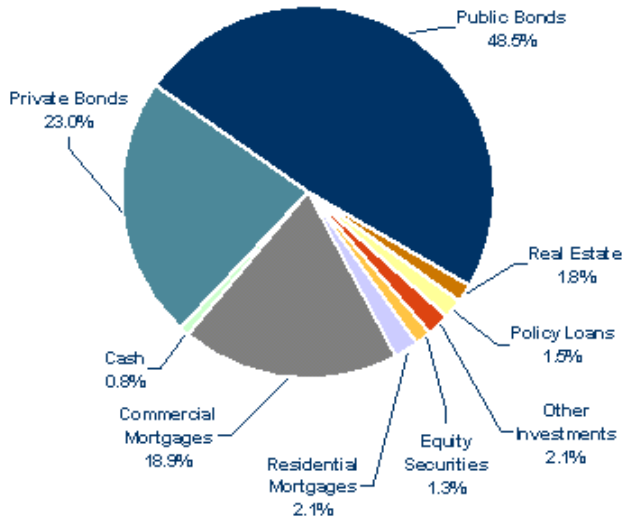
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## Investment Philosophy and Strategy

- Active Asset/Liability Management and Strategy
- Optimize Risk Adjusted Yields and Returns
- Maintain Quality Well Diversified Portfolio

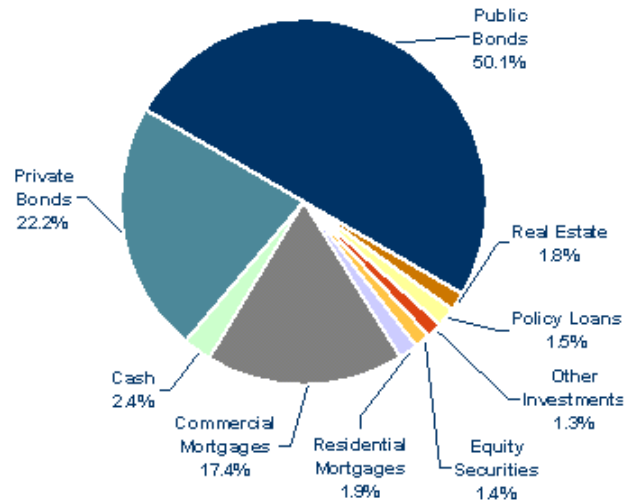
# Principal Life Insurance Company Cash and Invested Assets

**March 31, 2005**



**\$54.4 Billion**

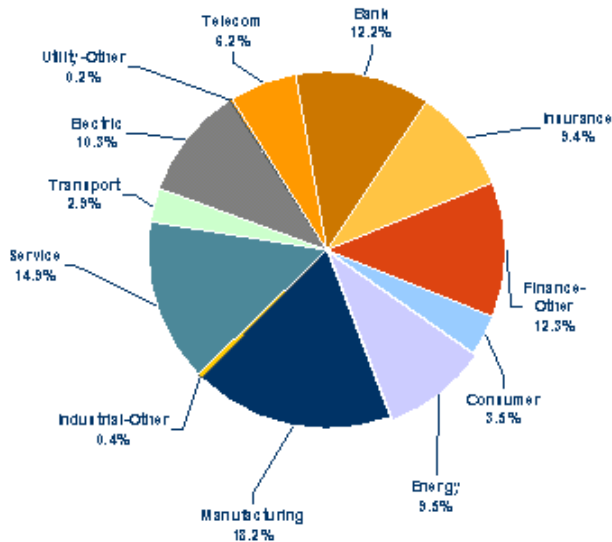
**March 31, 2006**



**\$56.0 Billion**

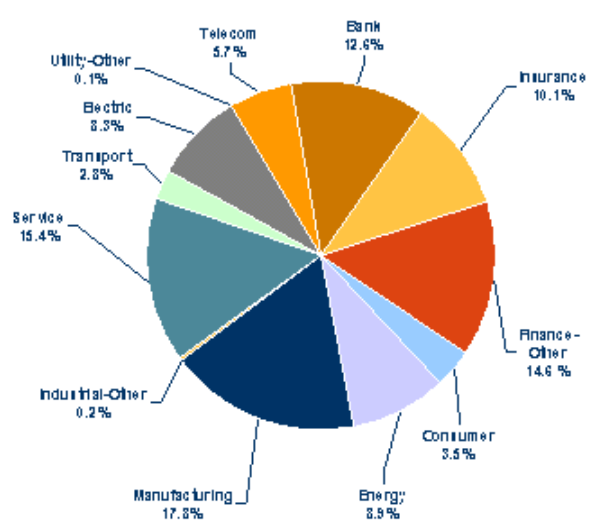
Principal Life Insurance Company  
**U.S. Invested Assets**  
**Corporate Fixed Maturities Portfolio**  
*by Salomon Industry*

**March 31, 2005**



**\$29.6 billion**

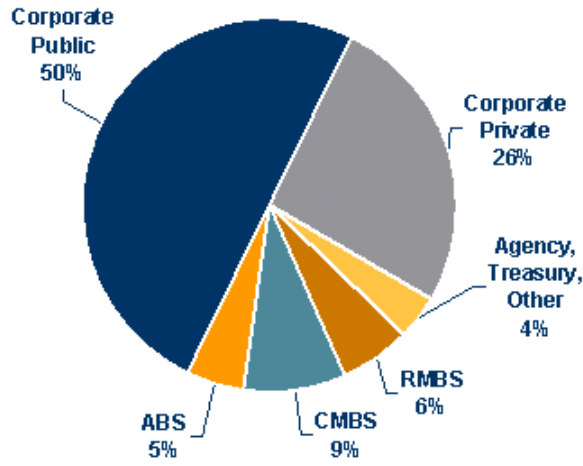
**March 31, 2006**



**\$29.5 billion**

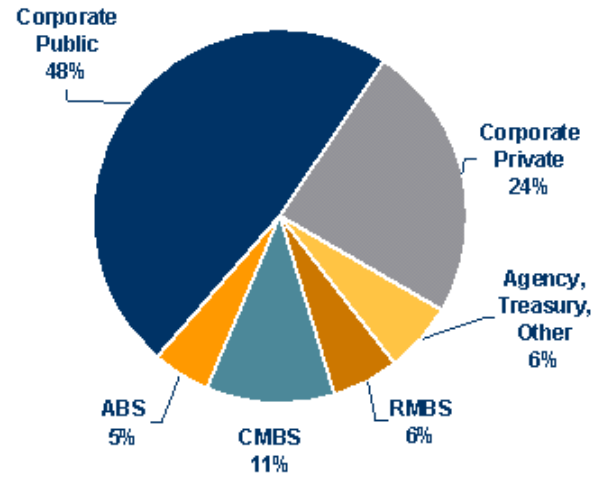
Principal Life Insurance Company  
**U.S. Fixed Maturities Composition**  
by Asset Type

March 31, 2005



**\$38.9 billion**

March 31, 2006

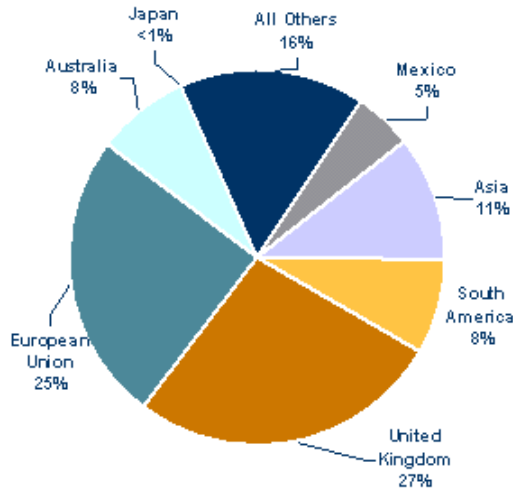


**\$40.5 billion**



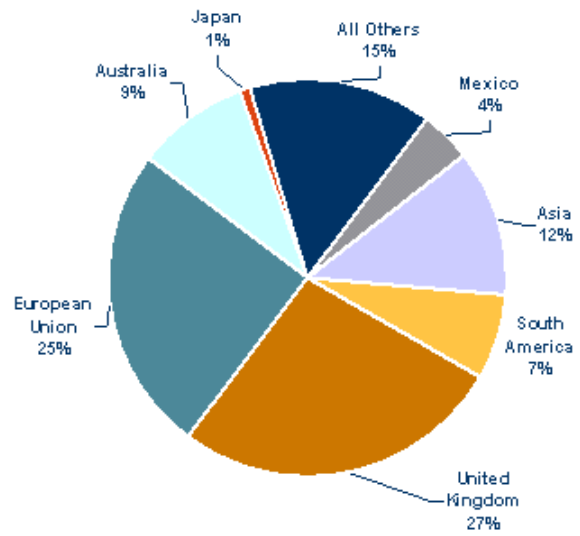
Principal Life Insurance Company  
**U.S. Invested Assets**  
**Fixed Maturities Portfolio Composition**  
 by Foreign Area

**March 31, 2005**



Foreign Fixed Maturities =  
 US\$6.4 Billion

**March 31, 2006**



Foreign Fixed Maturities =  
 US\$7.7 Billion

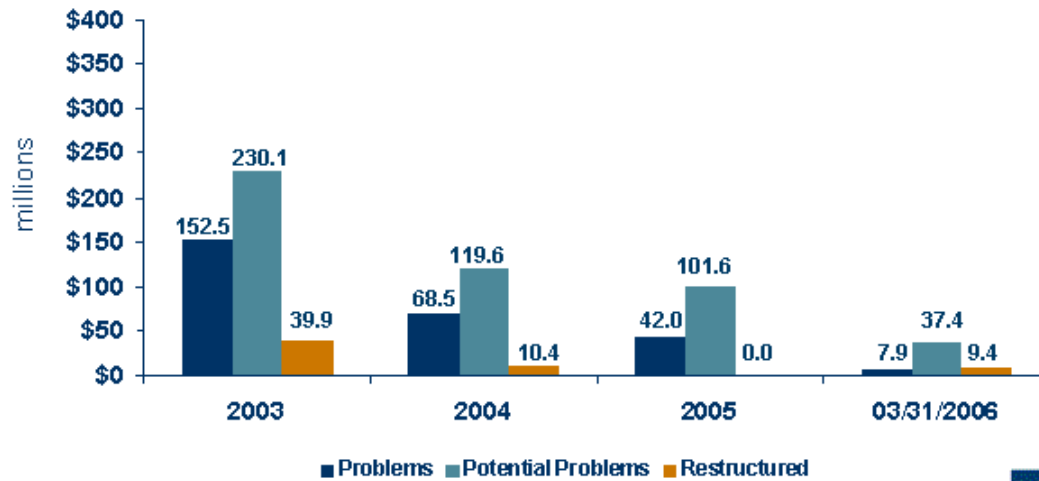


Principal Life Insurance Company  
**U.S. Invested Assets**  
**Fixed Income Securities Portfolio**  
**Statutory Basis**

% of Fixed Income Securities Portfolio

NAIC Class	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>03-31-2006</u>
1	52.3%	54.2%	56.9%	57.0%
2	39.0	39.7	37.5	37.8
3	6.4	4.7	4.7	4.5
4	1.6	1.0	0.6	0.6
5	0.4	0.1	0.1	0.0
6	0.3	0.3	0.2	0.1
	100.0%	100.0%	100.0%	100.0%
<b>Total</b>	<b>\$33,726</b>	<b>\$36,759</b>	<b>\$39,267</b>	<b>\$39,332</b>
<b>Investment Grade Total (Classes 1 &amp; 2)</b>	<b>91.3%</b>	<b>93.9%</b>	<b>94.4%</b>	<b>94.8%</b>
<b>BIG as % of Total Fixed Income Securities Portfolio</b>	<b>8.7%</b>	<b>6.1%</b>	<b>5.6%</b>	<b>5.2%</b>
<b>BIG as % of Total U.S. Invested Assets</b>	<b>6.3%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>3.9%</b>

Principal Life Insurance Company  
**Fixed Income Securities Portfolio**  
**Problems, Potential Problems, and Restructured**  
**GAAP Basis**

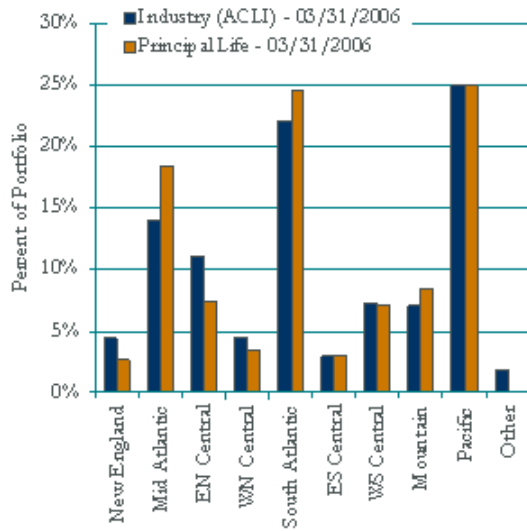


## Impairment Review Process

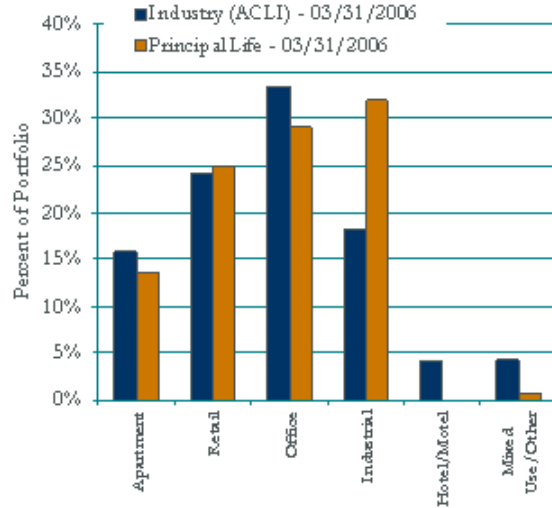
- Monthly review of all exposures on watch list
- Rigorous analysis on all exposures trading materially below par
- Determination made if the credit is temporary or permanent impairment based on fundamental credit analysis

Principal Life Insurance Company  
**Commercial Mortgage Loan Portfolio**  
 March 31, 2006 (Statutory Basis)

**Composition by U.S. Region**



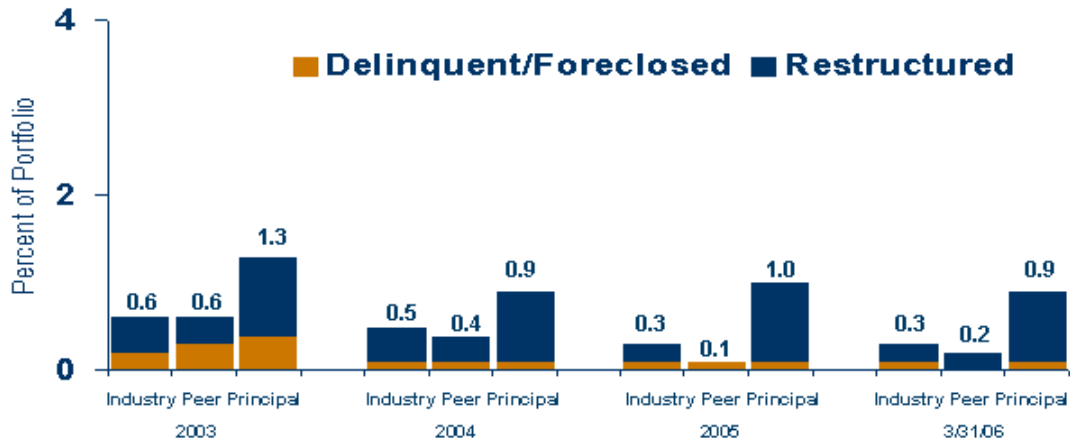
**Composition by Type**



**Mortgage Loans = U.S.\$8.5 Billion    Number of Loans Outstanding = 1,094**  
**Average Loan Size = U.S.\$7.7 Million**



Principal Life Insurance Company  
**Commercial Mortgage Portfolio**  
**Restructured & Delinquent/Foreclosed Loan Ratio**  
**Compared to Industry Average (Statutory Basis)**



**NOTES:**

1. Delinquency and foreclosure ratio is defined as mortgages 60 or more days delinquent, in the process of foreclosure, and foreclosed/deeded during the year, as a percentage of the commercial mortgage portfolio balance. 2. A restructured loan is a loan in good standing for which basic terms, such as interest rate, maturity date, collateral or guaranty, have been restructured as a result of actual or anticipated delinquency. Only loans restructured on or after January 1, 1996 are included in these ratios. 3. Peer group represents life insurance companies reporting to the ACLI with mortgage portfolios over \$5 billion.

Commercial Mortgage

## Loan Reserve/Loss Process

- Monthly meeting to review entire watchlist, including an analysis of loan-to-value.
- Rigorous review of all loans deemed most at risk.
- Determination is made if a loss is probable. If loss is probable, a reserve is established.

Investment Portfolio  
**Summary**

- Active asset/liability management
- Broadly diversified portfolio across asset class, credit, industry and geographic location
- Predominantly high quality portfolio



Investment Portfolio  
**2006 Focus**

- Enhancing diversification
- Active management of the portfolio
- Maintaining quality of the portfolio

## Principal Global Investors

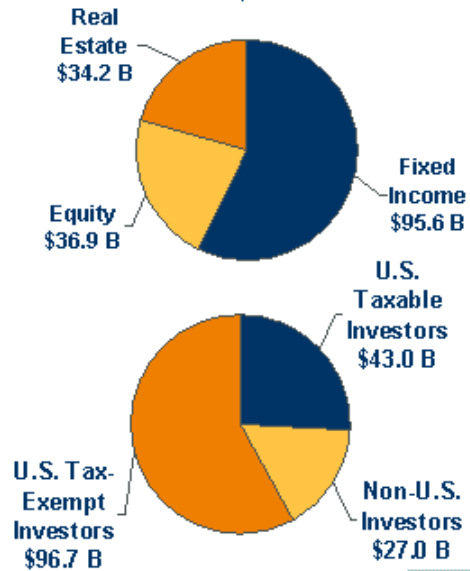


# Principal Global Investors\*

- A diversified global asset management organization
- \$166.7 billion in assets under management
- 1,066 employees including 418 investment professionals
- Broad range of capabilities, tailored to client objectives
- Global reach and clarity of purpose

## Assets Under Management

As of March, 31 2006

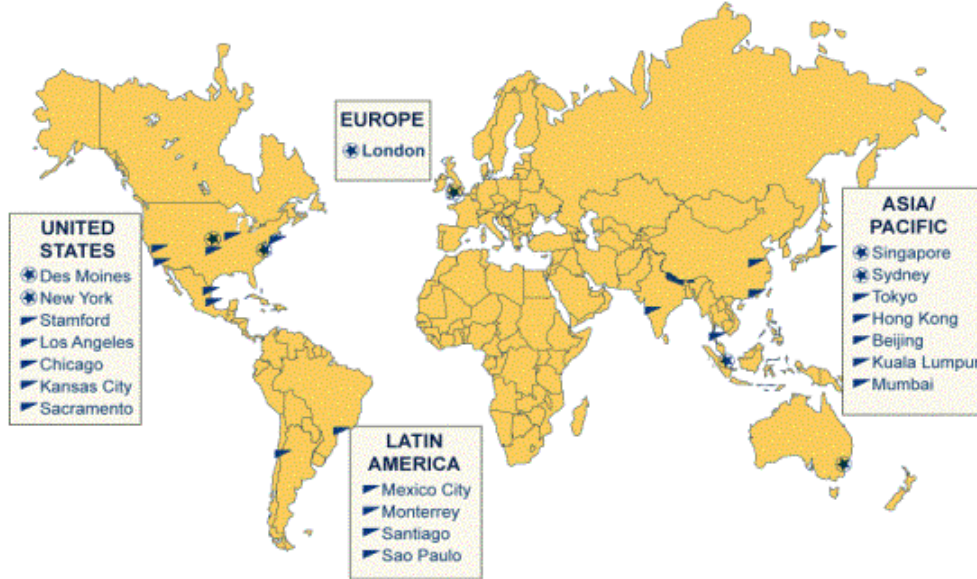


\*Principal Global Investors represents the asset management operations of the Principal Financial Group, including affiliates and subsidiaries. Please refer to slide titled "Asset Management Affiliates" for more details.

# Global Reach

## Asset Management Locations

Principal Global Investors & Principal International Affiliates



★ Principal Global Regional Headquarters  
\*excludes U.S. sales/service offices



# Fixed Income Asset Management

- **\$95.6 billion in combined fixed income assets under management**
  - Global Fixed Income - \$74.3 billion
  - Post Advisory - \$8.4 billion
  - Spectrum - \$12.9 billion
- **129 fixed income investment professionals in offices worldwide**
- **Emphasis on diversified “Multi-Sector” strategies:**
  - Total Return
  - Liability managed
  - Absolute Return

## A Powerful Platform



# Equity Asset Management

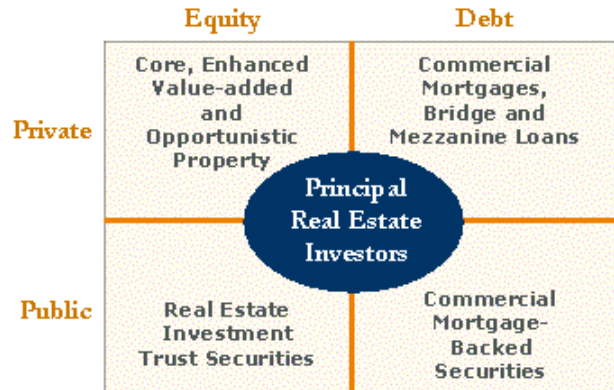
- Manage \$36.9 billion in equity assets and direct \$3.6 billion in asset allocation programs
- 91 Equity professionals based in Des Moines, New York, Stamford, London and Singapore
- Breadth of market coverage and depth of independent research in over 50 equity markets worldwide
- Client focused, team-based organization and culture



Data as of 3/31/06

# Principal Real Estate Investors

- \$34.2 billion in real estate assets under management
- Fourth largest manager of real estate, out of 98 managers profiled <sup>(1)</sup>
- 404 real estate employees including 195 investment professionals
- Draw from six decades of real estate investment experience
- In-depth coverage of over 60 metropolitan real estate markets



## Setting An Impressive Pace

- **The 42nd largest institutional asset manager in the world**, out of 778 managers profiled. Managers ranked by total worldwide institutional assets under management as of Dec. 31, 2005<sup>(1)</sup>
- **The 20th largest manager of U.S. institutional tax exempt assets**, out of 778 managers profiled. Managers ranked by U.S. institutional tax-exempt assets as of Dec. 31, 2005<sup>(1)</sup>
- **The fifth largest manager of 401(k) assets**, out of the 50 largest managers of defined contribution assets profiled<sup>(2)</sup>
- **The fourth largest manager of real estate**, out of 98 managers profiled. Managers ranked by U.S. institutional tax-exempt real estate assets as of June 30, 2005<sup>(3)</sup>
- **The 7th largest manager of high yield bonds**, out of 775 managers profiled. Managers ranked by U.S. institutional tax-exempt assets managed internally<sup>(4)</sup>
- **Specialists in the preferred securities market** through our affiliate, Spectrum Asset Management.
- Manage assets for **nine of the Top 25 Pension Funds** in the USA
- **Among the fastest growing managers in the industry**

(1)2006 Money Managers Directory," —*PENSIONS & INVESTMENTS Magazine*, May 29, 2006;  
(2)*INVESTMENT NEWS Magazine*, August 22, 2005; (3)*PENSIONS & INVESTMENTS Magazine*, May 30, 2005; (4)"P&I 1,000," —*PENSIONS & INVESTMENTS Magazine*, January 23, 2006



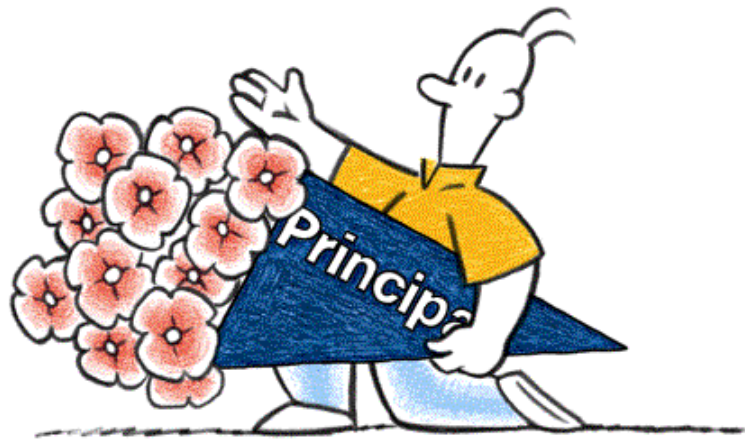


## Asset Management Affiliates

Principal Global Investors is the asset management arm of the Principal Financial Group® (The Principal®). As of March 31, 2006, assets under management totaled \$166.7 billion. This includes the asset management operations of the following members of The Principal:

- **Principal Global Investors, LLC**
- **Principal Real Estate Investors, LLC**
- **Columbus Circle Investors**
- **Post Advisory Group, LLC**
- **Spectrum Asset Management, Inc.**
- **Principal Global Investors (Europe) Limited**
- **Principal Global Investors (Singapore) Ltd.**
- **Principal Global Investors (Australia) Ltd.**
- **Principal International, Inc., its subsidiaries and affiliates**

# Thank you





# Appendix



## Non-GAAP Financial Measures for Principal Financial Group, Inc.

<i>Principal Financial Group, Inc.</i>										
Non-GAAP Financial Measures										
(in millions, except as indicated)										
	Twelve Months Ended					Three Months Ended				
	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06
<b>Operating Earnings :</b>										
USAMA	\$ 349.1	\$ 360.7	\$ 422.6	\$ 499.0	\$ 538.4	\$ 138.6	\$ 130.5	\$ 133.3	\$ 136.0	\$ 157.8
LAMA	2.5	19.2	34.5	40.3	71.0	9.5	19.1	19.7	22.7	17.6
Life and Health	201.2	233.1	241.2	256.2	274.4	69.5	76.3	65.4	63.2	70.4
Mortgage Banking	(14.1)	(16.7)	(18.1)	(10.3)	-	-	-	-	-	-
Corporate and Other	38.1	(17.0)	(12.5)	(20.4)	(21.4)	(8.4)	(4.9)	(4.1)	(4.0)	(5.6)
<b>Total operating earnings</b>	<b>576.8</b>	<b>579.3</b>	<b>667.7</b>	<b>764.8</b>	<b>862.4</b>	<b>209.2</b>	<b>221.0</b>	<b>214.3</b>	<b>217.9</b>	<b>240.2</b>
Net realized/unrealized capital gains (losses)	(306.6)	(247.3)	(49.3)	(62.3)	(20.6)	(3.7)	3.2	(4.2)	(15.9)	24.9
Other after-tax adjustments	88.6	(189.7)	127.9	123.1	59.5	-	14.7	(0.1)	44.9	20.6
<b>Net Income Available to Common Stockholders</b>	<b>\$ 358.8</b>	<b>\$ 142.3</b>	<b>\$ 746.3</b>	<b>\$ 825.6</b>	<b>\$ 901.3</b>	<b>\$ 205.5</b>	<b>\$ 238.9</b>	<b>\$ 210.0</b>	<b>\$ 246.9</b>	<b>\$ 285.7</b>



## Non-GAAP Financial Measures for Principal Financial Group, Inc.

<i>Principal Financial Group Inc.</i>							
Non-GAAP Financial Measures							
(in millions, except as indicated)							
	Two Months Ended:					Three Months Ended:	
	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05	31-Mar-05	31-Mar-06
<b>Operating Earnings ROE (x-OCI)</b>							
USAMA	16.9%	17.6%	19.2%	20.3%	20.4%	19.7%	19.3%
LAMA	0.1%	1.5%	4.6%	4.8%	8.1%	4.9%	9.0%
Life and Health	11.6%	13.7%	13.4%	13.3%	12.7%	12.7%	12.7%
Mortgage Banking	-3.7%	-3.8%	-3.8%	-4.4%	0.0%	-1.9%	0.0%
Corporate and Other	10.0%	-2.0%	-1.4%	-2.7%	-3.7%	-2.6%	-4.5%
Total operating earnings ROE (x-OCI)	8.9%	9.1%	10.9%	12.3%	13.8%	12.4%	14.1%
Net unrealized/realized capital gains (losses)	-4.7%	-3.9%	-0.8%	-1.0%	-0.3%	-0.7%	0.1%
Other after-tax adjustments	1.3%	-3.0%	2.1%	2.0%	0.9%	1.4%	1.2%
Net income ROE Available to Common Stockholders (x-OCI)	5.5%	2.2%	12.2%	13.3%	14.4%	13.1%	15.4%
Net unrealized capital gains (losses)	-0.2%	-0.2%	-1.8%	-2.4%	-2.3%	-2.4%	-1.9%
Foreign currency translation	0.2%	0.1%	0.2%	0.1%	0.1%	0.2%	0.1%
Minimum pension liability	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Net Income ROE Available to Common Stockholders (including OCI)</i>	5.5%	2.1%	10.6%	11.0%	12.2%	10.9%	13.6%



## Non-GAAP Financial Measures for Principal Financial Group, Inc.

<i>Principal Financial Group, Inc.</i> Non-GAAP Financial Measures (in millions, except as indicated)					
	Twelve Months Ended:			Three Months Ended:	
	31-Dec-03	31-Dec-04	31-Dec-05	31-Mar-05	31-Mar-06
<b>Stockholders' Equity x-OCI Available to Common Stockholders</b>					
USAMA	\$ 2,343.4	\$ 2,576.8	\$ 2,693.5	\$ 2,867.0	\$ 2,924.6
IAMA	811.4	867.0	892.7	863.8	898.8
Life and Health	1,823.5	2,030.2	2,282.5	2,045.1	2,280.4
Mortgage Banking	472.4	-	-	-	-
Corporate and Other	777.6	757.0	943.7	520.8	855.6
Total stockholders' equity x-OCI available to common stockholders	6,228.3	6,231.0	6,812.4	6,296.7	6,959.4
Net unrealized capital gains (losses)	1,291.4	1,403.9	1,027.9	1,145.0	675.1
Foreign currency translation	(117.6)	(85.3)	(21.6)	(93.3)	(24.3)
Minimum pension liability	(2.5)	(5.3)	(11.5)	(5.3)	(11.5)
Total stockholders' equity available to common stockholders	\$ 7,399.6	\$ 7,544.3	\$ 7,807.2	\$ 7,343.1	\$ 7,598.7



## Non-GAAP Financial Measures for Principal Financial Group, Inc.

<i>Principal Financial Group, Inc.</i>					
Non-GAAP Financial Measures					
(in millions, except as indicated)					
	Twelve Months Ended:				
	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05
<b>Diluted Earnings Per Share Available to Common Stockholders:</b>					
Operating Earnings	\$1.59	\$1.65	\$2.04	\$2.43	\$2.97
Net Unrealized/Realized Capital Gains/(Losses)	(0.85)	(0.70)	(0.15)	(0.20)	(0.06)
Other after-tax adjustments	0.25	(0.54)	0.39	0.39	0.20
Net Income Available to Common Stockholders	\$0.99	\$0.41	\$2.28	\$2.62	\$3.11



## Non-GAAP Financial Measures for Principal Life Insurance Company

<i>Principal Life Insurance Company</i>				
Non-GAAP Financial Measures				
(in millions)				
	Twelve Months Ended		Three Months Ended	
	31-Dec-04	31-Dec-05	31-Mar-05	31-Mar-06
<b>Net Income:</b>				
Total operating earnings	\$ 744.9	\$ 808.0	\$ 202.4	\$ 230.4
Net realized/unrealized capital gains (losses)	(77.7)	(26.8)	(2.4)	24.3
Other after-tax adjustments	100.6	50.9	-	20.6
<i>Net income</i>	\$ 767.8	\$ 832.1	\$ 200.0	\$ 275.3
<b>Total GAAP Revenues:</b>				
Total operating revenues	\$ 7,769.0	\$ 8,326.4	\$ 1,981.3	\$ 2,165.2
Add:				
Net realized/unrealized capital gains (losses) and related fee adjustments	(119.8)	(28.6)	(2.7)	48.0
Subtract:				
Operating revenues from discontinued real estate	2.5	2.2	0.9	-
<i>Total GAAP revenues</i>	\$ 7,646.7	\$ 8,295.6	\$ 1,977.7	\$ 2,213.2
<b>Total Stockholder's Equity:</b>				
Total stockholders' equity x OCI	\$ 5,353.5	\$ 6,227.7	\$ 5,963.1	\$ 6,088.4
Net unrealized capital gains (losses)	1,315.9	873.5	1,037.7	468.5
Foreign currency translation	(7.8)	(7.1)	(7.5)	(6.7)
Minimum pension liability	(5.3)	(11.5)	(5.3)	(11.5)
<i>Total stockholder's equity</i>	\$ 6,656.3	\$ 7,082.6	\$ 6,988.0	\$ 6,538.7

