PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
August 04, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of July 28, 2010, was 320,310,476.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	June 30, 2010 (Unaudited)	December 31, 2009
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2010 includes $248.8 million related to consolidated variable interest entities)	**$ 48,230.1**	$ 46,220.6
Fixed maturities, trading (2010 includes $162.7 million related to consolidated variable interest entities)	**1,245.2**	1,032.4
Equity securities, available-for-sale	**171.3**	214.0
Equity securities, trading (2010 includes $80.1 million related to consolidated variable interest entities)	**222.8**	221.5
Mortgage loans	**11,292.6**	11,845.6
Real estate	**1,082.7**	1,034.6
Policy loans	**894.4**	902.5
Other investments (2010 includes $130.6 million related to consolidated variable interest entities of which $130.4 million are measured at fair value under the fair value option)	**2,758.0**	2,465.3
Total investments	**65,897.1**	63,936.5
Cash and cash equivalents (2010 includes $147.6 million related to consolidated variable interest entities)	**1,827.3**	2,240.4
Accrued investment income	**668.6**	691.9
Premiums due and other receivables	**1,232.6**	1,065.4
Deferred policy acquisition costs	**3,426.7**	3,681.4
Property and equipment	**471.7**	489.3
Goodwill	**381.8**	386.4
Other intangibles	**842.9**	851.7
Separate account assets	**60,735.0**	62,738.5
Other assets	**1,112.8**	1,677.9
Total assets	**$ 136,596.5**	$ 137,759.4
Liabilities		
Contractholder funds	**$ 38,849.4**	$ 39,801.9
Future policy benefits and claims	**19,268.8**	19,248.3
Other policyholder funds	**569.5**	559.2
Short-term debt	**126.5**	101.6
Long-term debt	**1,572.4**	1,584.6
Income taxes currently payable	**2.5**	2.8
Deferred income taxes	**197.3**	120.2
Separate account liabilities	**60,735.0**	62,738.5
Other liabilities (2010 includes $451.2 million related to consolidated variable interest entities of which $119.0 million are measured at fair value under the fair value option)	**6,203.4**	5,585.9
Total liabilities	**127,524.8**	129,743.0

Stockholders equity				
Series A preferred stock, par value $.01 per share with liquidation preference of $100 per share - 3.0 million shares authorized, issued and outstanding in 2010 and 2009				
Series B preferred stock, par value $.01 per share with liquidation preference of $25 per share - 10.0 million shares authorized, issued and outstanding in 2010 and 2009		**0.1**		0.1
Common stock, par value $.01 per share - 2,500.0 million shares authorized, 447.9 million and 447.0 million shares issued, and 319.8 million and 319.0 million shares outstanding in 2010 and 2009		**4.5**		4.5
Additional paid-in capital		**9,525.8**		9,492.9
Retained earnings		**4,474.8**		4,160.7
Accumulated other comprehensive loss		**(351.0)**		(1,042.0)
Treasury stock, at cost (128.1 million and 128.0 million shares in 2010 and 2009, respectively)		**(4,724.7)**		(4,722.7)
Total stockholders equity attributable to Principal Financial Group, Inc.		**8,929.5**		7,893.5
Noncontrolling interest		**142.2**		122.9
Total stockholders equity		**9,071.7**		8,016.4
Total liabilities and stockholders equity	**$**	**136,596.5**	$	137,759.4

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions, except per share data)			
Revenues				
Premiums and other considerations	**$ 868.2**	$ 937.7	**$ 1,747.1**	$ 1,887.6
Fees and other revenues	**554.8**	515.2	**1,122.4**	988.7
Net investment income	**877.0**	860.1	**1,740.0**	1,688.6
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(11.9)**	(20.8)	**21.8**	11.9
Total other-than-temporary impairment losses on available-for-sale securities	**(107.1)**	(200.9)	**(191.7)**	(347.5)
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income	**52.6**	66.5	**58.0**	117.1
Net impairment losses on available-for-sale securities	**(54.5)**	(134.4)	**(133.7)**	(230.4)
Net realized capital losses	**(66.4)**	(155.2)	**(111.9)**	(218.5)
Total revenues	**2,233.6**	2,157.8	**4,497.6**	4,346.4
Expenses				
Benefits, claims and settlement expenses	**1,337.0**	1,334.3	**2,612.3**	2,640.9
Dividends to policyholders	**55.0**	62.9	**111.5**	126.4
Operating expenses	**683.8**	562.7	**1,359.7**	1,251.1
Total expenses	**2,075.8**	1,959.9	**4,083.5**	4,018.4
Income before income taxes	**157.8**	197.9	**414.1**	328.0
Income taxes	**13.6**	33.9	**66.3**	41.4
Net income	**144.2**	164.0	**347.8**	286.6
Net income attributable to noncontrolling interest	**1.9**	5.4	**6.5**	7.0
Net income attributable to Principal Financial Group, Inc.	**142.3**	158.6	**341.3**	279.6
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Net income available to common stockholders	**$ 134.0**	$ 150.3	**$ 324.8**	$ 263.1
Earnings per common share				
Basic earnings per common share	**$ 0.42**	$ 0.52	**$ 1.02**	$ 0.96
Diluted earnings per common share	**$ 0.42**	$ 0.52	**$ 1.01**	$ 0.95

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Stockholders Equity

(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Noncontrolling interest	Total stockholders equity
					(in millions)				
Balances at January 1, 2009	$	$ 0.1	$ 3.9	$ 8,376.5	$ 3,722.5	$ (4,911.6)	$ (4,718.6)	$ 96.5	$ 2,569.3
Common stock issued			0.6	1,112.4					1,113.0
Stock-based compensation and additional related tax benefits				16.8					16.8
Treasury stock acquired, common							(3.7)		(3.7)
Dividends to preferred stockholders					(16.5)				(16.5)
Distributions to noncontrolling interest								(22.4)	(22.4)
Purchase of subsidiary shares from noncontrolling interest				(45.9)				0.2	(45.7)
Effects of reclassifying noncredit component of previously recognized impairment losses on fixed maturities, available-for-sale, net					9.9	(9.9)			
Comprehensive income:									
Net income					279.6			7.0	286.6
Net unrealized gains, net						1,806.8			1,806.8
Noncredit component of impairment losses on fixed maturities, available-for-sale, net						(68.4)			(68.4)
Foreign currency translation adjustment, net of related income taxes						110.8			110.8
Unrecognized postretirement benefit obligation, net of related income taxes						29.9			29.9
Comprehensive income									2,165.7
Balances at June 30, 2009	$	$ 0.1	$ 4.5	$ 9,459.8	$ 3,995.5	$ (3,042.4)	$ (4,722.3)	$ 81.3	$ 5,776.5
Balances at January 1, 2010	**$**	**$ 0.1**	**$ 4.5**	**$ 9,492.9**	**$ 4,160.7**	**$ (1,042.0)**	**$ (4,722.7)**	**$ 122.9**	**$ 8,016.4**
Common stock issued				**9.1**					**9.1**
Stock-based compensation and additional related tax benefits				**23.8**					**23.8**
Treasury stock acquired, common							**(2.0)**		**(2.0)**
Dividends to preferred stockholders					**(16.5)**				**(16.5)**

Distributions to noncontrolling interest									**(3.8)**	**(3.8)**
Contributions from noncontrolling interest									**16.6**	**16.6**
Effects of implementation of accounting change related to variable interest entities, net					**(10.7)**	**10.7**				
Comprehensive income:										
Net income					**341.3**				**6.5**	**347.8**
Net unrealized gains, net						**751.3**				**751.3**
Noncredit component of impairment losses on fixed maturities, available-for-sale, net						**(29.6)**				**(29.6)**
Foreign currency translation adjustment, net of related income taxes						**(61.1)**				**(61.1)**
Unrecognized postretirement benefit obligation, net of related income taxes						**19.7**				**19.7**
Comprehensive income										**1,028.1**
Balances at June 30, 2010	**$**	**$ 0.1**	**$ 4.5**	**$ 9,525.8**	**$ 4,474.8**	**$ (351.0)**	**$ (4,724.7)**	**$ 142.2**	**$**	**9,071.7**

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended June 30,	
	2010	**2009**
	(in millions)	
Operating activities		
Net income	**$ 347.8**	$ 286.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred policy acquisition costs	**149.9**	36.2
Additions to deferred policy acquisition costs	**(247.9)**	(253.3)
Accrued investment income	**23.3**	54.5
Net cash flows for trading securities	**60.6**	38.0
Premiums due and other receivables	**(32.3)**	(55.3)
Contractholder and policyholder liabilities and dividends	**588.2**	820.1
Current and deferred income taxes	**16.8**	149.0
Net realized capital losses	**111.9**	218.5
Depreciation and amortization expense	**59.3**	68.8
Mortgage loans held for sale, acquired or originated	**(27.5)**	(21.2)
Mortgage loans held for sale, sold or repaid, net of gain	**29.2**	26.0
Real estate acquired through operating activities		(16.6)
Real estate sold through operating activities	**9.8**	
Stock-based compensation	**23.3**	16.5
Other	**371.9**	47.1
Net adjustments	**1,136.5**	1,128.3
Net cash provided by operating activities	**1,484.3**	1,414.9
Investing activities		
Available-for-sale securities:		
Purchases	**(4,154.0)**	(2,968.0)
Sales	**1,169.9**	1,623.7
Maturities	**2,246.0**	2,049.6
Mortgage loans acquired or originated	**(437.3)**	(181.1)
Mortgage loans sold or repaid	**790.7**	862.2
Real estate acquired	**(18.6)**	(42.1)
Real estate sold		1.3
Net purchases of property and equipment	**(8.6)**	(16.5)
Purchases of interest in subsidiaries, net of cash acquired		(45.7)
Net change in other investments	**(21.1)**	(50.6)
Net cash provided by (used in) investing activities	**$ (433.0)**	$ 1,232.8

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

(Unaudited)

	For the six months ended June 30,	
	2010	**2009**
	(in millions)	
Financing activities		
Issuance of common stock	**$ 9.1**	$ 1,154.4
Acquisition of treasury stock	**(2.0)**	(3.7)
Proceeds from financing element derivatives	**39.5**	77.9
Payments for financing element derivatives	**(22.7)**	(43.7)
Excess tax benefits from share-based payment arrangements	**0.8**	0.2
Dividends to preferred stockholders	**(16.5)**	(16.5)
Issuance of long-term debt	**1.1**	750.0
Principal repayments of long-term debt	**(6.4)**	(21.7)
Net proceeds from (repayments of) short-term borrowings	**28.0**	(345.7)
Investment contract deposits	**2,133.0**	2,681.1
Investment contract withdrawals	**(3,663.1)**	(5,224.4)
Net increase in banking operation deposits	**37.0**	68.1
Other	**(2.2)**	(3.2)
Net cash used in financing activities	**(1,464.4)**	(927.2)
Net increase (decrease) in cash and cash equivalents	**(413.1)**	1,720.5
Cash and cash equivalents at beginning of period	**2,240.4**	2,608.0
Cash and cash equivalents at end of period	**$ 1,827.3**	$ 4,328.5

See accompanying notes.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2010

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ended December 31, 2010. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2009, included in our Form 10-K for the year ended December 31, 2009, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2009, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires new and expanded disclosures related to the credit quality of financing receivables and the allowance for credit losses. Reporting entities are required to provide qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. The disclosures are required to be presented on a disaggregated basis by portfolio segment and class of financing receivable. Disclosures required by the guidance that relate to the end of a reporting period will be effective for us in the December 31, 2010, consolidated financial statements. Disclosures required by the guidance that relate to an activity that occurs during a reporting period will be effective for us on January 1, 2011. We do not anticipate this guidance will have a material impact on our consolidated financial statements.

In April 2010, the FASB issued authoritative guidance addressing how investments held through the separate accounts of an insurance entity affect the entity s consolidation analysis. This guidance clarifies that an insurance entity should not consider any separate account interests held for the benefit of policyholders in an investment to be the insurer s interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation. This guidance will be effective for us on January 1, 2011, and will not have a material impact on our consolidated financial statements.

In March 2010, the FASB issued authoritative guidance that amends and clarifies the guidance on evaluation of credit derivatives embedded in beneficial interests in securitized financial assets, including asset-backed securities, credit-linked notes, collateralized loan obligations and collateralized debt obligations (CDOs). This guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial instrument to another. This guidance will be effective for us on July 1, 2010. Upon adoption of the guidance, we will elect the fair value option for our fixed maturities within the scope of this guidance, effectively reclassifying them from available-for-sale to trading, and will record a cumulative effect adjustment for the amount of unrealized gains or losses on these fixed maturities, net of tax and deferred policy acquisition costs (DPAC). We expect the cumulative change in accounting principle to result in a net $25.4 million decrease to retained earnings, with a corresponding increase to accumulated other comprehensive income.

In January 2010, the FASB issued authoritative guidance that requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Specifically, reporting entities now must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, in the reconciliation for Level 3 fair value measurements, a reporting entity should present separately information about purchases, sales, issuances and settlements. The guidance clarifies that a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities for disclosure of fair value measurement, considering the level of disaggregated information required by other applicable U.S. GAAP guidance and should also provide disclosures about the valuation techniques and inputs used to measure fair value for each class of assets and liabilities. This guidance was effective for us on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements, which will be effective for us on January 1, 2011. This guidance will not have a material impact on our consolidated financial statements.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

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

In June 2009, the FASB issued authoritative guidance to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement in transferred financial assets. The most significant change is the elimination of the concept of a qualifying special-purpose entity (QSPE). Therefore, former QSPEs, as defined under previous accounting standards, should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. This guidance was effective for us on January 1, 2010, and did not have a material impact on our consolidated financial statements.

Also in June 2009, the FASB issued authoritative guidance related to the accounting for VIEs, which amends prior guidance and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. In addition, this guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. Furthermore, we are required to enhance disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a VIE. The enhanced disclosures are required for any enterprise that holds a variable interest in a VIE. We adopted this guidance prospectively effective January 1, 2010. Due to the implementation of this guidance, certain previously unconsolidated VIEs were consolidated and certain previously consolidated VIEs were deconsolidated. The cumulative change in accounting principle from adopting this guidance resulted in a net $10.7 million decrease to retained earnings and a net $10.7 million increase to accumulated other comprehensive income. In February 2010, the FASB issued an amendment to this guidance. The amendment indefinitely defers the consolidation requirements for reporting enterprises interests in entities that have the characteristics of investment companies and regulated money market funds. This amendment was effective January 1, 2010, and did not have a material impact to our consolidated financial statements. The required disclosures are included in our consolidated financial statements. See Note 2, Variable Interest Entities, for further details.

Separate Accounts

At June 30, 2010 and December 31, 2009, the separate accounts include a separate account valued at $170.8 million and $191.5 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Variable Interest Entities

We have relationships with and may have a variable interest in various types of special purpose entities. Following is a discussion of our interest in entities that meet the definition of a VIE. When we are the primary beneficiary we are required to consolidate the entity in our financial statements. On January 1, 2010, we adopted authoritative guidance that changed the method of determining the primary beneficiary of a VIE. Prior to January 1, 2010, the primary beneficiary was the enterprise who absorbed the majority of the entity s expected losses, received a majority of the expected residual returns or both. The new guidance identifies the primary beneficiary of a VIE as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The guidance also requires ongoing assessment of whether we are the primary beneficiary of a VIE. See further discussion of the adoption in Note 1, Nature of Operations and Significant Accounting Policies.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

2. Variable Interest Entities (continued)

Consolidated Variable Interest Entities

Grantor Trusts

We contributed undated subordinated floating rate notes to three grantor trusts. The trusts separated the cash flows by issuing an interest-only certificate and a residual certificate related to each note contributed. Each interest-only certificate entitles the holder to interest on the stated note for a specified term, while the residual certificate entitles the holder to interest payments subsequent to the term of the interest-only certificate and to all principal payments. We retained the interest-only certificates and the residual certificates were subsequently sold to third parties.

We have determined these grantor trusts are VIEs due to insufficient equity to sustain them. As our interest-only certificates are exposed to the majority of the risk of loss due to interest rate risk, we determined we were the primary beneficiary prior to January 1, 2010. Beginning January 1, 2010, we determined we remain the primary beneficiary as a result of our contribution of securities into the trusts.

Collateralized Private Investment Vehicles

We invest in synthetic CDOs, collateralized bond obligations, collateralized loan obligations, collateralized commodity obligations and other collateralized structures, which are VIEs due to insufficient equity to sustain the entities (collectively known as collateralized private investment vehicles). The performance of the notes of these structures is primarily linked to a synthetic portfolio by derivatives; each note has a specific loss attachment and detachment point. The notes and related derivatives are collateralized by a pool of permitted investments. The investments are held by a trustee and can only be liquidated to settle obligations of the trusts. These obligations primarily include derivatives, financial guarantees and the notes due at maturity or termination of the trusts.

Prior to January 1, 2010, we determined we were the primary beneficiary of a certain number of these entities due to the nature of our direct investment in the VIEs. As of December 31, 2009, we consolidated five collateralized private investment vehicles with assets of $135.7 million. Upon adoption of the new accounting guidance as of January 1, 2010, we determined we were no longer the primary beneficiary of three of these entities with assets of $65.4 million. For these three entities, we do not control the decisions affecting the economic performance of the entities and we were not involved with the design of the entities. As of June 30, 2010, we continue to hold $53.8 million of investments in these entities classified on the consolidated statements of financial position as fixed maturities, available-for-sale or fixed maturities, trading. We also determined we are the primary beneficiary of two additional collateralized private investment vehicles. For all the collateralized structures consolidated as of June 30, 2010, we are the primary beneficiary because we act as the investment manager of the underlying portfolio and we

have an ownership interest.

Commercial Mortgage-Backed Securities

In September 2000, we sold commercial mortgage loans to a real estate mortgage investment conduit trust. The trust issued various commercial mortgage-backed securities (CMBS) certificates using the cash flows of the underlying commercial mortgages it purchased. Prior to January 1, 2010, this entity was scoped out of the consolidation guidance as a QSPE. Based on the new accounting guidance, the previous scope exception for QSPEs no longer exists and this entity is now a VIE due to the entity having insufficient equity to sustain itself. We have determined we are the primary beneficiary as we retained the special servicing role for the assets within the trust as well as the ownership of the bond class which controls the unilateral kick out rights of the special servicer.

Hedge Funds

We are a general partner with an insignificant equity ownership in various hedge funds. These entities are deemed VIEs due to the equity owners not having decision-making ability. Before January 1, 2010, we consolidated these VIEs due to our related parties ownership. Beginning January 1, 2010, we continue to consolidate these entities due to our control through our management relationship, related party ownership and our fee structure in certain of these funds. These entities contain various fixed maturities held as available-for-sale and trading and equity securities held as trading.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

2. Variable Interest Entities (continued)

The carrying amounts of our consolidated VIE assets, which can only be used to settle obligations of consolidated VIEs, and liabilities of consolidated VIEs for which creditors do not have recourse are as follows:

	Grantor trusts	Collateralized private investment vehicles	CMBS	Hedge funds (2)	Total
			(in millions)		
June 30, 2010					
Fixed maturities, available-for-sale	$ 234.4	$ 14.4	$	$	$ 248.8
Fixed maturities, trading		162.7			162.7
Equity securities, trading				80.1	80.1
Other investments			130.4	0.2	130.6
Cash and cash equivalents		55.0		92.6	147.6
Accrued investment income	0.5	0.1	0.9		1.5
Premiums due and other receivables		1.5		23.4	24.9
Total assets	$ 234.9	$ 233.7	$ 131.3	$ 196.3	$ 796.2
Deferred income taxes	$ 2.5	$	$	$	$ 2.5
Other liabilities (1)	125.8	161.5	100.1	63.8	451.2
Total liabilities	$ 128.3	$ 161.5	$ 100.1	$ 63.8	$ 453.7

(1) Grantor trusts contain an embedded derivative of a forecasted transaction to deliver the underlying securities; collateralized private investment vehicles include derivative liabilities, financial guarantees and obligation to redeem notes at maturity or termination of the trust; CMBS includes obligation to the bondholders; and hedge funds include liabilities to securities brokers.

(2) The consolidated statements of financial position included a $131.8 million noncontrolling interest for hedge funds.

We did not provide financial or other support to investees designated as VIEs during the three or six months ended June 30, 2010.

Unconsolidated Variable Interest Entities

We hold a significant variable interest in a number of VIEs where we are not the primary beneficiary. Our investments in securities issued by these VIEs are reported in fixed maturities, available-for-sale and fixed maturities, trading in the consolidated statements of financial position and are described below.

VIEs include CMBS, residential mortgage-backed securities and asset-backed securities. All of these entities were deemed VIEs upon the removal of the QSPE scope exception because the equity within these entities is insufficient to sustain them. We currently are not the primary beneficiary in any of the entities within these categories of investments. This determination was based primarily on the fact we do not own the class of security that controls the unilateral right to replace the special servicer or equivalent function.

As previously discussed, we invest in several types of collateralized private investment vehicles, which are VIEs. These include cash and synthetic structures that we do not manage. We are currently not the primary beneficiary of these collateralized private investment vehicles primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

We have invested in various VIE trusts as a debt holder. All of these entities are classified as VIEs due to insufficient equity to sustain them. Prior to January 1, 2010, we had performed a quantitative analysis and concluded that although we held a significant variable interest in these entities we were not the primary beneficiary due to lack of majority of the risk of loss or because they were scoped out as a QSPE. Beginning January 1, 2010, we concluded we are not the primary beneficiary primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

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Principal Financial Group, Inc.
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2. Variable Interest Entities (continued)

The carrying value and maximum loss exposure for our unconsolidated VIEs are as follows:

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
June 30, 2010		
Fixed maturities, available-for-sale:		
Corporate	$ 415.9	$ 356.4
Residential mortgage-backed securities	3,062.4	2,925.3
Commercial mortgage-backed securities	3,848.2	4,757.0
Collateralized debt obligations	353.5	544.4
Other debt obligations	3,063.5	3,162.2
Fixed maturities, trading:		
Residential mortgage-backed securities	144.1	144.1
Commercial mortgage-backed securities	3.4	3.4
Collateralized debt obligations	7.8	7.8
Other debt obligations	164.6	164.6

(1) Our risk of loss is limited to our initial investment measured at amortized cost.

3. Investments

Fixed Maturities and Equity Securities

Fixed maturities include bonds, asset-backed securities, redeemable preferred stock and certain nonredeemable preferred stock. Equity securities include mutual funds, common stock and nonredeemable preferred stock. We classify fixed maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 9, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments related to DPAC, sales inducements, unearned revenue reserves, derivatives in cash flow hedge relationships and applicable income taxes. Unrealized gains and losses related to hedged portions of available-for-sale securities in fair value hedging relationships and mark-to-market adjustments on certain trading securities are reflected in net realized capital gains (losses). We also have trading securities portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities. Mark-to-market adjustments related to these trading securities are reflected in net investment income.

The cost of fixed maturities is adjusted for amortization of premiums and accrual of discounts, both computed using the interest method. The cost of fixed maturities and equity securities classified as available-for-sale is adjusted for declines in value that are other than temporary. Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

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

3. Investments (continued)

The amortized cost, gross unrealized gains and losses, other-than-temporary impairments in OCI and fair value of fixed maturities and equity securities available-for-sale are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Other-than-temporary impairments in OCI	Fair value
			(in millions)		
June 30, 2010					
Fixed maturities, available-for-sale:					
U.S. government and agencies	**$ 587.1**	**$ 21.9**	**$**	**$**	**$ 609.0**
Non-U.S. governments	**719.4**	**129.4**	**0.1**		**848.7**
States and political subdivisions	**2,283.5**	**82.1**	**7.5**		**2,358.1**
Corporate	**32,918.5**	**1,938.1**	**742.3**	**27.6**	**34,086.7**
Residential mortgage-backed securities	**2,925.3**	**137.8**	**0.7**		**3,062.4**
Commercial mortgage-backed securities	**4,757.0**	**74.9**	**793.9**	**189.8**	**3,848.2**
Collateralized debt obligations	**544.4**	**1.1**	**155.3**	**36.7**	**353.5**
Other debt obligations	**3,162.2**	**73.2**	**89.6**	**82.3**	**3,063.5**
Total fixed maturities, available-for-sale	**$ 47,897.4**	**$ 2,458.5**	**$ 1,789.4**	**$ 336.4**	**$ 48,230.1**
Total equity securities, available-for-sale	**$ 194.7**	**$ 6.2**	**$ 29.6**		**$ 171.3**
December 31, 2009					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 550.1	$ 9.1	$ 0.5	$	$ 558.7
Non-U.S. governments	741.5	114.8	1.4		854.9
States and political subdivisions	2,008.7	53.4	13.5		2,048.6
Corporate	32,767.0	1,296.8	1,075.0	58.0	32,930.8
Residential mortgage-backed securities	3,049.5	87.4	3.8		3,133.1
Commercial mortgage-backed securities	4,898.0	20.9	1,211.5	107.7	3,599.7
Collateralized debt obligations	607.5	1.8	200.7	39.0	369.6
Other debt obligations	2,994.1	34.6	229.8	73.7	2,725.2
Total fixed maturities, available-for-sale	$ 47,616.4	$ 1,618.8	$ 2,736.2	$ 278.4	$ 46,220.6
Total equity securities, available-for-sale	$ 231.1	$ 17.2	$ 34.3		$ 214.0

The amortized cost and fair value of fixed maturities available-for-sale as of June 30, 2010, by contractual maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	$ 2,336.8	$ 2,378.2
Due after one year through five years	13,519.2	14,066.3
Due after five years through ten years	9,289.3	9,735.4
Due after ten years	11,363.2	11,722.6
Subtotal	36,508.5	37,902.5
Mortgage-backed and other asset-backed securities	11,388.9	10,327.6
Total	$ 47,897.4	$ 48,230.1

Actual maturities may differ because issuers may have the right to call or prepay obligations. Our portfolio is diversified by industry, issuer and asset class. Credit concentrations are managed to established limits.

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3. Investments (continued)

Net Realized Capital Gains and Losses

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, gains and losses related to other-than-temporary impairments, certain trading securities, certain seed money investments, fair value hedge and cash flow hedge ineffectiveness, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance and impairments of real estate held for investment are reported as net realized capital gains (losses). Investment gains and losses on sales of certain real estate held for sale, which do not meet the criteria for classification as a discontinued operation, are reported as net investment income and are excluded from net realized capital gains (losses). We also have trading securities portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities for which the mark-to-market adjustments are reported as net investment income and are excluded from net realized capital gains (losses). The major components of net realized capital gains (losses) on investments are summarized as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
		(in millions)		
Fixed maturities, available-for-sale:				
Gross gains	**$ 21.8**	$ 14.2	**$ 40.8**	$ 63.6
Gross losses	**(129.4)**	(193.6)	**(223.0)**	(350.4)
Portion of other-than-temporary impairment losses recognized in OCI	**52.6**	66.5	**58.0**	117.1
Hedging, net	**129.9**	(180.2)	**176.6**	(233.6)
Fixed maturities, trading	**4.0**	18.2	**14.5**	41.8
Equity securities, available-for-sale:				
Gross gains	**0.3**	5.7	**7.8**	12.5
Gross losses	**(0.6)**	(13.5)	**(2.1)**	(14.1)
Equity securities, trading	**(0.1)**	20.3	**7.8**	10.7
Mortgage loans	**(82.4)**	(41.1)	**(108.4)**	(76.6)
Derivatives	**(157.2)**	193.9	**(206.9)**	262.1
Other	**94.7**	(45.6)	**123.0**	(51.6)
Net realized capital losses	**$ (66.4)**	$ (155.2)	**$ (111.9)**	$ (218.5)

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $0.5 billion and $0.7 billion for the three months ended June 30, 2010 and 2009, and $1.1 billion and $1.6 billion for the six months ended June 30, 2010 and 2009, respectively.

Other-Than-Temporary Impairments

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

Each reporting period, all securities are reviewed to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest rate-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) for fixed maturities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

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Principal Financial Group, Inc.
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3. Investments (continued)

Impairment losses on equity securities are recognized in net income. The way in which impairment losses on fixed maturities are recognized in the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, we recognize an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the recognition of the other-than-temporary impairment is bifurcated. We recognize the credit loss portion in net income and the noncredit loss portion in OCI.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities cash flow estimates are based on bond specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or liquidations using bond specific facts and circumstances including timing, security interests and loss severity.

Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities, were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Fixed maturities, available-for-sale	**$ (106.9)**	$ (193.1)	**$ (195.5)**	$ (345.8)
Equity securities, available-for-sale	**(0.2)**	(7.8)	**3.8**	(1.7)
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	**$ (107.1)**	$ (200.9)	**$ (191.7)**	$ (347.5)

The other-than-temporary impairments on fixed maturities for which an amount related to credit losses was recognized in net realized capital gains (losses) and an amount related to noncredit losses was recognized in OCI is summarized as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			

Total other-than-temporary impairments on fixed maturities for which an amount related to noncredit losses was recognized in OCI (1)	**$ (94.8)**	$ (100.1)	**$ (158.6)**	$ (199.3)
Noncredit loss recognized in OCI	**52.6**	66.5	**58.0**	117.1
Credit loss impairment recognized in net realized capital losses	**$ (42.2)**	$ (33.6)	**$ (100.6)**	$ (82.2)

(1) For the three months ended June 30, 2010 and 2009, total other-than-temporary impairment losses on available-for-sale securities reported in the consolidated statements of operations also include $12.1 million and $93.0 million, respectively, of impairment losses, net of recoveries from the sale of previously impaired securities, on fixed maturities and $0.2 million and $7.8 million, respectively, of impairment losses, net of recoveries from the sale of previously impaired securities, on equity securities for which total impairment losses are recognized in net income.

For the six months ended June 30, 2010 and 2009, total other-than-temporary impairment losses on available-for-sale securities reported in the consolidated statements of operations also include $36.9 million and $146.5 million, respectively, of impairment losses, net of recoveries from the sale of previously impaired securities, on fixed maturities and $3.8 million of net recoveries from the sale of previously impaired securities and $1.7 million of impairment losses, net of recoveries from the sale of previously impaired securities, respectively, on equity securities for which total impairment losses are recognized in net income.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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3. Investments (continued)

The following table provides a rollforward of credit losses on fixed maturities recognized in net income (bifurcated credit losses) for which a portion of an other-than-temporary impairment was recognized in OCI. The purpose of the table is to provide detail of (1) additions to the bifurcated credit loss amounts recognized for the period and (2) decrements for previously recognized bifurcated credit losses where the loss is no longer bifurcated and/or there has been a positive change in expected cash flows or accretion of the bifurcated credit loss amount.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Beginning balance	**$ (262.7)**	$ (67.1)	**$ (204.7)**	$ (18.5)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(39.4)**	(24.3)	**(94.2)**	(72.3)
Credit losses for which an other-than-temporary impairment was previously recognized	**(23.9)**	(9.6)	**(46.1)**	(10.2)
Reduction for credit losses previously recognized on securities now sold or intended to be sold	**21.1**	0.3	**39.7**	0.3
Reduction for positive changes in cash flows expected to be collected and amortization (1)	**1.9**	0.1	**2.3**	0.1
Ending balance	**$ (303.0)**	$ (100.6)	**$ (303.0)**	$ (100.6)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Fixed Maturities and Equity Securities

For fixed maturities and equity securities available-for-sale with unrealized losses, including other-than-temporary impairment losses reported in OCI, as of June 30, 2010, the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities were in a continuous unrealized loss position are summarized as follows:

	June 30, 2010					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					

Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 11.2	$	$	$	$ 11.2	$
Non-U.S. governments	8.4	0.1			8.4	0.1
States and political subdivisions	150.3	2.6	139.6	4.9	289.9	7.5
Corporate	1,718.5	67.7	5,250.9	702.2	6,969.4	769.9
Residential mortgage-backed securities	142.7	0.6	0.6	0.1	143.3	0.7
Commercial mortgage-backed securities	313.4	5.5	1,698.3	978.2	2,011.7	983.7
Collateralized debt obligations	1.5	0.4	338.4	191.6	339.9	192.0
Other debt obligations	252.0	2.0	749.9	169.9	1,001.9	171.9
Total fixed maturities, available-for-sale	$ 2,598.0	$ 78.9	$ 8,177.7	$ 2,046.9	$ 10,775.7	$ 2,125.8
Total equity securities, available-for-sale	$ 17.6	$ 6.7	$ 92.9	$ 22.9	$ 110.5	$ 29.6

Of the total amounts, Principal Life Insurance Company s (Principal Life) consolidated portfolio represented $10,499.3 million in available-for-sale fixed maturities with gross unrealized losses of $2,081.5 million. Principal Life s consolidated portfolio consists of fixed maturities where 75% were investment grade (rated AAA through BBB-) with an average price of 83 (carrying value/amortized cost) at June 30, 2010. Gross unrealized losses in our fixed maturities portfolio decreased during the first half of 2010, primarily due to a decline in interest rates. The decrease is primarily attributed to the corporate and commercial mortgage-backed securities sectors.

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Principal Financial Group, Inc.
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3. Investments (continued)

For those securities that had been in a loss position for less than twelve months, Principal Life s consolidated portfolio held 294 securities with a carrying value of $2,587.9 million and unrealized losses of $78.8 million reflecting an average price of 97 at June 30, 2010. Of this portfolio, 86% was investment grade (rated AAA through BBB-) at June 30, 2010, with associated unrealized losses of $52.7 million. The losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 1,077 securities with a carrying value of $7,911.4 million and unrealized losses of $2,002.7 million. The average rating of this portfolio was BBB+ with an average price of 80 at June 30, 2010. Of the $ 2,002.7 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $978.2 million in unrealized losses with an average price of 63 and an average credit rating of A-. The remaining unrealized losses consist primarily of $657.9 million within the corporate sector at June 30, 2010. The average price of the corporate sector was 88 and the average credit rating was BBB. The losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For fixed maturities and equity securities available-for-sale with unrealized losses, including other-than-temporary impairment losses reported in OCI, as of December 31, 2009, the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities were in a continuous unrealized loss position are summarized as follows:

	December 31, 2009					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 32.7	$ 0.4	$ 1.0	$ 0.1	$ 33.7	$ 0.5
Non-U.S. governments	24.6	0.5	36.6	0.9	61.2	1.4
States and political subdivisions	242.8	1.9	247.9	11.6	490.7	13.5
Corporate	2,595.9	69.2	7,958.2	1,063.8	10,554.1	1,133.0
Residential mortgage-backed securities	491.9	3.7	0.6	0.1	492.5	3.8
Commercial mortgage-backed securities	468.1	16.7	2,217.3	1,302.5	2,685.4	1,319.2
Collateralized debt obligations			366.1	239.7	366.1	239.7
Other debt obligations	335.4	23.4	902.3	280.1	1,237.7	303.5
	$ 4,191.4	$ 115.8	$ 11,730.0	$ 2,898.8	$ 15,921.4	$ 3,014.6

Total fixed maturities, available-for-sale						
Total equity securities, available-for-sale	$ 4.4	$ 0.1	$ 116.1	$ 34.2	$ 120.5	$ 34.3

Of the total amounts, Principal Life s consolidated portfolio represented $14,979.2 million in available-for-sale fixed maturities with unrealized losses of $2,928.9 million. Principal Life s consolidated portfolio consists of fixed maturities where 83% were investment grade (rated AAA through BBB-) with an average price of 84 (carrying value/amortized cost) at December 31, 2009. Due to the credit disruption that began in the last half of 2007 and continued into first quarter of 2009, which reduced liquidity and led to wider credit spreads, we saw an increase in unrealized losses in our securities portfolio. The unrealized losses were more pronounced in the corporate sector and in structured products, such as commercial mortgage-backed securities, collateralized debt obligations and asset-backed securities (included in other debt obligations). During the second quarter of 2009 and continuing through the end of the year, a narrowing of credit spreads and improvement in liquidity resulted in a decrease in the unrealized losses in our securities portfolio relative to year-end 2008.

For those securities that had been in a loss position for less than twelve months, Principal Life s consolidated portfolio held 406 securities with a carrying value of $3,739.3 million and unrealized losses of $100.5 million reflecting an average price of 97 at December 31, 2009. Of this portfolio, 97% was investment grade (rated AAA through BBB-) at December 31, 2009, with associated unrealized losses of $82.7 million. The losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

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3. Investments (continued)

For those securities that had been in a continuous loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 1,481 securities with a carrying value of $11,239.9 million and unrealized losses of $2,828.4 million. The average rating of this portfolio was BBB+ with an average price of 80 at December 31, 2009. Of the $2,828.4 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $1,302.5 million in unrealized losses with an average price of 63 and an average credit rating of AA-. The remaining unrealized losses consist primarily of $993.5 million within the corporate sector at December 31, 2009. The average price of the corporate sector was 88 and the average credit rating was BBB. The losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because it was not our intent to sell the fixed maturities, available-for-sale with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at June 30, 2010 and December 31, 2009.

Net Unrealized Gains and Losses on Available-for-Sale Securities and Derivative Instruments

The net unrealized gains and losses on investments in fixed maturities, available-for-sale; equity securities, available-for-sale and derivative instruments are reported as a separate component of stockholders equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and derivative instruments net of adjustments related to DPAC, sales inducements, unearned revenue reserves, changes in policyholder benefits and claims and applicable income taxes was as follows:

	June 30, 2010	December 31, 2009
	(in millions)	
Net unrealized gains (losses) on fixed maturities, available-for-sale (1)	**$ 644.9**	$ (1,117.4)
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(336.4)**	(260.9)
Net unrealized losses on equity securities, available-for-sale	**(23.4)**	(17.1)
Adjustments for assumed changes in amortization patterns	**(163.2)**	211.9
Adjustments for assumed changes in liability for policyholder benefits and claims	**(209.6)**	(75.7)
Net unrealized gains on derivative instruments	**65.9**	16.8
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**121.6**	214.1
Provision for deferred income tax benefits (taxes)	**(18.6)**	397.7
Effect of implementation of accounting change related to variable interest entities, net	**10.7**	

Effect of reclassifying noncredit component of previously recognized impairment losses on fixed maturities, available-for-sale, net				(9.9)
Net unrealized gains (losses) on available-for-sale securities and derivative instruments	**$**	**91.9**	$	(640.5)

(1) Excludes net unrealized gains (losses) on hedged portions of fixed maturities, available-for-sale included in fair value hedging relationships.

Securities Posted as Collateral

We posted $1,012.7 million in fixed maturities as of June 30, 2010, to satisfy collateral requirements primarily associated with a reinsurance arrangement and our derivative credit support annex (collateral) agreements. In addition, we posted $1,679.2 million in commercial mortgage loans as of June 30, 2010, to satisfy collateral requirements associated with our obligation under funding agreements with the Federal Home Loan Bank of Des Moines.

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4. Derivative Financial Instruments

Derivatives are generally used to hedge or reduce exposure to market risks associated with assets held or expected to be purchased or sold and liabilities incurred or expected to be incurred. Derivatives are used to change the characteristics of our asset/liability mix consistent with our risk management activities. Derivatives are also used in asset replication strategies.

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Sources of interest rate risk include the difference between the maturity and interest rate changes of assets with the liabilities they support, timing differences between the pricing of liabilities and the purchase or procurement of assets and changing cash flow profiles from original projections due to prepayment options embedded within asset and liability contracts. We use various derivatives to manage our exposure to fluctuations in interest rates.

Interest rate swaps are contracts in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts based upon designated market rates or rate indices and an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. Cash is paid or received based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities arising from timing mismatches between assets and liabilities (including duration mismatches). We also use interest rate swaps to hedge against changes in the value of assets we anticipate acquiring and other anticipated transactions and commitments. Interest rate swaps are used to hedge against changes in the value of the guaranteed minimum withdrawal benefit (GMWB) liability. The GMWB rider on our variable annuity products provides for guaranteed minimum withdrawal benefits regardless of the actual performance of various equity and/or fixed income funds available with the product.

Interest rate caps and interest rate floors, which can be combined to form interest rate collars, are contracts that entitle the purchaser to pay or receive the amounts, if any, by which a specified market rate exceeds a cap strike interest rate, or falls below a floor strike interest rate, respectively, at specified dates. We have entered into interest rate collars whereby we receive amounts if a specified market rate falls below a floor strike interest rate, and we pay if a specified market rate exceeds a cap strike interest rate. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts.

A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to offset existing exposures. We have also written these options and received a premium in order to transform our callable liabilities into fixed term liabilities. Swaptions provide us the benefit of the agreed-upon strike rate if the market rates for liabilities are higher, with the flexibility to enter into the current market rate swap if the market rates for liabilities are lower. Swaptions not only hedge against the downside risk, but also allow us to take advantage of any upside benefits.

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

Foreign Exchange Contracts

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements we issue, foreign currency-denominated fixed maturities we invest in and our investment in and net income of our international operations. We may use currency swaps and currency forwards to hedge foreign currency risk.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010
(Unaudited)

4. Derivative Financial Instruments (continued)

Currency swaps are contracts in which we agree with other parties to exchange, at specified intervals, a series of principal and interest payments in one currency for that of another currency. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. The interest payments are primarily fixed-to-fixed rate; however, they may also be fixed-to-floating rate or floating-to-fixed rate. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date. We use currency swaps to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell.

Currency forwards are contracts in which we agree with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell. We have also used currency forwards to hedge the currency risk associated with net investments in foreign operations.

Equity Contracts

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in common stock. We use various derivatives to manage our exposure to equity risk, which arises from products in which the interest we credit is tied to an external equity index as well as products subject to minimum contractual guarantees.

We may sell an investment-type insurance contract with attributes tied to market indices (an embedded derivative as noted below), in which case we write an equity call option to convert the overall contract into a fixed-rate liability, essentially eliminating the equity component altogether. We purchase equity call spreads to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity products that credit interest based on changes in an external equity index. We use exchange-traded futures and equity put options to hedge against changes in the value of the GMWB liability related to the GMWB rider on our variable annuity product, as previously explained.

Credit Contracts

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. We use credit default swaps to enhance the return on our investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. They are also used to hedge credit exposures in our investment portfolio. Credit derivatives are used to sell or buy credit protection on an identified name or names on an unfunded or synthetic basis in return for receiving or paying a quarterly premium. The premium generally corresponds to a referenced name s credit spread at the time the agreement is executed. In cases where we sell protection, at the same time we enter into these synthetic transactions, we buy a quality cash bond to match against the credit default swap. When selling protection, if there is an event of default by the referenced name, as defined by the agreement, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security in a principal amount equal to the notional value of the credit default swap.

Other Contracts

Commodity Swaps. Commodity swaps are used to sell or buy protection on commodity prices in return for receiving or paying a quarterly premium. We have purchased secured limited recourse notes from VIEs that are consolidated in our financial results. These VIEs used a commodity swap to enhance the return on an investment portfolio by selling protection on a static portfolio of commodity trigger swaps, each referencing a base or precious metal. The portfolio of commodity trigger swaps was a portfolio of deep out-of-the-money European puts on various base or precious metals. The VIEs provided mezzanine protection that the average spot rate would not fall below a certain trigger price on each commodity trigger swap in the portfolio and received guaranteed quarterly premiums in return until maturity. At the same time the VIEs entered into this synthetic transaction, they bought a quality cash bond to match against the commodity swaps.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

4. Derivative Financial Instruments (continued)

Embedded Derivatives. We purchase or issue certain financial instruments or products that contain a derivative instrument that is embedded in the financial instrument or product. When it is determined that the embedded derivative possesses economic characteristics that are not clearly or closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host instrument for measurement purposes. The embedded derivative, which is reported with the host instrument in the consolidated statements of financial position, is carried at fair value.

We sell investment-type insurance contracts in which the return is tied to an external equity index, a leveraged inflation index or leveraged reference swap. We economically hedge the risk associated with these investment-type insurance contracts.

We offer group benefit plan contracts that have guaranteed separate accounts as an investment option. We also offer a guaranteed fund as an investment option in our defined contribution plans in Hong Kong.

We have structured investment relationships with trusts we have determined to be VIEs, which are consolidated in our financial statements. The notes issued by these trusts include obligations to deliver an underlying security to residual interest holders and the obligations contain an embedded derivative of the forecasted transaction to deliver the underlying security.

We have fixed deferred annuities that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which provides that the contractholder will receive at least their principal deposit back through withdrawals of up to a specified annual amount, even if the account value is reduced to zero. Declines in the equity market may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these annuity contracts, as previously explained.

Exposure

Our risk of loss is typically limited to the fair value of our derivative instruments and not to the notional or contractual amounts of these derivatives. Risk arises from changes in the fair value of the underlying instruments. We are also exposed to credit losses in the event of nonperformance of the counterparties. Our current credit exposure is limited to the value of derivatives that have become favorable to us. This

credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits. We also utilize various credit enhancements, including collateral and credit triggers to reduce the credit exposure to our derivative instruments.

Our derivative transactions are generally documented under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, we are permitted to set off our receivable from a counterparty against our payables to the same counterparty arising out of all included transactions. For reporting purposes, we do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements.

We posted $306.9 million and $273.7 million in cash and securities under collateral arrangements as of June 30, 2010, and December 31, 2009, respectively, to satisfy collateral requirements associated with our derivative credit support agreements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the rating on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of June 30, 2010, and December 31, 2009, was $1,401.8 million and $1,139.7 million, respectively. With respect to these derivatives, we posted collateral of $306.9 million and $273.7 million as of June 30, 2010 and December 31, 2009, respectively, in the normal course of business, which reflects netting under derivative credit support annex agreements. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2010, we would be required to post an additional $33.1 million of collateral to our counterparties.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

4. Derivative Financial Instruments (continued)

As of June 30, 2010, and December 31, 2009, we had received $242.2 million and $353.4 million, respectively, of cash collateral associated with our derivative credit support annex agreements. The cash collateral is included in other assets on the consolidated statements of financial position, with a corresponding liability reflecting our obligation to return the collateral recorded in other liabilities.

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Credit exposure represents the gross amount owed to us under derivative contracts as of the valuation date. The notional amounts and credit exposure of our derivative financial instruments by type were as follows:

	June 30, 2010	December 31, 2009
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 20,880.1**	$ 19,588.6
Interest rate collars	**500.0**	
Swaptions	**68.5**	
Futures	**0.3**	43.3
Foreign exchange contracts:		
Foreign currency swaps	**4,977.4**	5,284.4
Currency forwards	**76.7**	91.5
Equity contracts:		
Options	**973.1**	818.2
Futures	**0.1**	84.6
Credit contracts:		
Credit default swaps	**1,607.4**	1,586.4
Other contracts:		
Embedded derivative financial instruments	**3,598.4**	3,344.5
Commodity swaps		40.0
Total notional amounts at end of period	**$ 32,682.0**	$ 30,881.5
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 774.2**	$ 579.1
Interest rate collars	**15.1**	
Swaptions	**0.1**	
Foreign exchange contracts:		

Foreign currency swaps		**415.5**		594.4
Currency forwards				3.8
Equity contracts:				
Options		**240.7**		149.8
Credit contracts:				
Credit default swaps		**11.3**		15.5
Total gross credit exposure		**1,456.9**		1,342.6
Less: collateral received		**270.6**		395.6
Net credit exposure	**$**	**1,186.3**	$	947.0

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010
(Unaudited)

4. Derivative Financial Instruments (continued)

The fair value of our derivative instruments classified as assets and liabilities was as follows:

	Derivative assets (1)		Derivative liabilities (2)	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
	(in millions)			
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 100.5**	$ 81.5	**$ 468.5**	$ 309.1
Foreign exchange contracts	**348.9**	444.4	**151.7**	240.6
Total derivatives designated as hedging instruments	**$ 449.4**	$ 525.9	**$ 620.2**	$ 549.7
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 620.6**	$ 433.5	**$ 531.4**	$ 336.8
Foreign exchange contracts	**67.9**	107.5	**79.3**	75.0
Equity contracts	**240.7**	149.8		
Credit contracts	**11.3**	15.5	**222.3**	84.0
Other contracts			**206.2**	128.1
Total derivatives not designated as hedging instruments	**$ 940.5**	$ 706.3	**$ 1,039.2**	$ 623.9
Total derivative instruments	**$ 1,389.9**	$ 1,232.2	**$ 1,659.4**	$ 1,173.6

(1) The fair value of derivative assets is reported with other investments on the consolidated statements of financial position.

(2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statements of financial position, with the exception of certain embedded derivative liabilities. Embedded derivative liabilities with a fair value of $78.2 million and $23.6 million as of June 30, 2010, and December 31, 2009, respectively, are reported with contractholder funds on the consolidated statements of financial position.

Credit Derivatives Sold

When we sell credit protection, we are exposed to the underlying credit risk similar to purchasing a fixed maturity security instrument. The majority of our credit derivative contracts sold reference a single name or reference security (referred to as single name credit default swaps). The remainder of our credit derivatives reference either a basket or index of securities. These instruments are either referenced in an over-the-counter credit derivative transaction, or embedded within an investment structure that has been fully consolidated into our financial statements.

These credit derivative transactions are subject to events of default defined within the terms of the contract, which normally consist of bankruptcy, failure to pay, or modified restructuring of the reference entity and/or issue. If a default event occurs for a reference name or security, we are obligated to pay the counterparty an amount equal to the notional amount of the credit derivative transaction. As a result, our maximum future payment is equal to the notional amount of the credit derivative. In certain cases, we also have purchased credit protection with identical underlyings to certain of our sold protection transactions. The effect of this purchased protection would reduce our total maximum future payments by $10.0 million and $47.0 million as of June 30, 2010, and December 31, 2009, respectively. These credit derivative transactions had a net asset (liability) fair value of $(0.7) million and $2.4 million as of June 30, 2010, and December 31, 2009, respectively. Our potential loss could also be reduced by any amount recovered in the default proceedings of the underlying credit name.

We purchased certain investment structures with embedded credit features that are fully consolidated into our financial statements. This consolidation results in recognition of the underlying credit derivatives and collateral within the structure, typically high quality fixed maturities that are owned by a special purpose vehicle. These credit derivatives reference a single name or several names in a basket structure. In the event of default, the collateral within the structure would typically be liquidated to pay the claims of the credit derivative counterparty.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

4. Derivative Financial Instruments (continued)

The following tables show our credit default swap protection sold by types of contract, types of referenced/underlying asset class and external agency rating for the underlying reference security. The maximum future payments are undiscounted and have not been reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	June 30, 2010			
	Notional amount	Fair value (in millions)	Maximum future payments	Weighted average expected life (in years)
Single name credit default swaps				
Corporate debt				
AA	$ 135.0	$ (1.7)	$ 135.0	4.4
A	589.0	(7.0)	589.0	3.2
BBB	185.0	(2.0)	185.0	1.5
BB	10.0		10.0	0.3
Structured finance				
B	25.9	(22.5)	25.9	6.4
CCC	22.0	(20.7)	22.0	9.9
Total single name credit default swaps	966.9	(53.9)	966.9	3.2
Basket and index credit default swaps				
Corporate debt				
A	6.0	(0.6)	6.0	1.5
CCC (1)	170.0	(142.0)	170.0	6.4
Government/municipalities				
A	40.0	(12.5)	40.0	5.9
Structured finance				
AA	20.0	(5.0)	20.0	4.9
BBB	5.0	(1.1)	5.0	15.4
Total basket and index credit default swaps	241.0	(161.2)	241.0	6.2
Total credit default swap protection sold	$ 1,207.9	$ (215.1)	$ 1,207.9	3.8

(1) The increase from December 31, 2009, resulted from the consolidation of additional collateralized private investment vehicles due to our implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

4. Derivative Financial Instruments (continued)

	December 31, 2009			
	Notional amount	Fair value (in millions)	Maximum future payments	Weighted average expected life (in years)
Single name credit default swaps				
Corporate debt				
AA	$ 135.0	$ (0.6)	$ 135.0	4.9
A	609.0	1.2	609.0	3.6
BBB	220.0	0.2	220.0	1.8
BB	10.0		10.0	0.8
Structured finance				
AA	9.9	(6.0)	9.9	2.5
BBB	16.0	(15.2)	16.0	9.6
CCC	22.0	(20.2)	22.0	10.4
Total single name credit default swaps	1,021.9	(40.6)	1,021.9	3.6
Basket and index credit default swaps				
Corporate debt				
A	6.0	(0.1)	6.0	2.0
BBB	20.0		20.0	0.5
CCC	15.0	(11.9)	15.0	3.0
Government/municipalities				
A	50.0	(9.3)	50.0	5.1
Structured finance				
AA	20.0	(5.9)	20.0	5.4
BBB	5.0	(1.2)	5.0	15.9
Total basket and index credit default swaps	116.0	(28.4)	116.0	4.4
Total credit default swap protection sold	$ 1,137.9	$ (69.0)	$ 1,137.9	3.6

We also have invested in available-for-sale fixed maturities that contain credit default swaps that do not require bifurcation. These securities are subject to the credit risk of the issuer, normally a special purpose vehicle, which consists of the underlying credit default swaps and high quality fixed maturities that serve as collateral. A default event occurs if the cumulative losses exceed a specified attachment point, which is typically not the first loss of the portfolio. If a default event occurs that exceeds the specified attachment point, our investment may not be fully returned. We would have no future potential payments under these investments. The following tables show, by the types of referenced/underlying asset class and external rating, our available-for-sale fixed maturities with nonbifurcatable embedded credit derivatives.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

4. Derivative Financial Instruments (continued)

	June 30, 2010		
	Amortized cost	Carrying value	Weighted average expected life (in years)
	(in millions)		
Corporate debt			
AA	**$ 15.0**	**$ 14.4**	**0.2**
BB	**25.0**	**17.4**	**6.5**
CCC	**50.0**	**42.2**	**2.6**
C	**12.2**	**0.8**	**5.8**
Total corporate debt	**102.2**	**74.8**	**3.6**
Structured finance			
AA	**9.5**	**4.4**	**8.4**
A	**7.0**	**5.5**	**6.3**
BBB	**33.6**	**22.9**	**6.3**
BB	**39.8**	**20.2**	**5.8**
B	**5.4**	**2.6**	**6.9**
CCC	**3.7**	**2.9**	**6.5**
CC	**4.8**	**0.7**	**7.7**
C	**15.3**	**3.9**	**14.6**
Total structured finance	**119.1**	**63.1**	**7.5**
Total fixed maturities with credit derivatives	**$ 221.3**	**$ 137.9**	**5.7**

	December 31, 2009		
	Amortized cost	Carrying value	Weighted average expected life (in years)
	(in millions)		
Corporate debt			
AA	$ 15.0	$ 14.3	0.7
A	15.0	14.6	0.3
BBB	5.0	4.9	0.3
BB	48.9	42.9	3.5
CCC	51.4	43.8	4.5
C	22.7	6.5	6.6
Total corporate debt	158.0	127.0	3.9
Structured finance			
AA	9.5	5.6	9.1
A	7.0	5.0	6.8
BBB	41.1	23.2	6.8
BB	32.6	17.4	7.3
B	7.4	3.1	7.3

CCC		16.1	5.7	19.4
CC		18.0	0.8	7.8
C		10.8	3.3	12.9
Total structured finance		142.5	64.1	11.2
Total fixed maturities with credit derivatives	$	300.5	$ 191.1	8.0

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

4. Derivative Financial Instruments (continued)

Fair Value Hedges

We use fixed-to-floating rate interest rate swaps to more closely align the interest rate characteristics of certain assets and liabilities. In general, these swaps are used in asset and liability management to modify duration, which is a measure of sensitivity to interest rate changes.

We enter into currency exchange swap agreements to convert certain foreign denominated assets and liabilities into U.S. dollar floating-rate denominated instruments to eliminate the exposure to future currency volatility on those items.

We also sell callable investment-type insurance contracts and use cancellable interest rate swaps and have written interest rate swaptions to hedge the changes in fair value of the callable feature.

The net interest effect of interest rate swap and currency swap transactions for derivatives in fair value hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

Hedge effectiveness testing for fair value relationships is performed utilizing a regression analysis approach for both prospective and retrospective evaluations. This regression analysis will consider multiple data points for the assessment that the hedge continues to be highly effective in achieving offsetting changes in fair value. In certain periods, the comparison of the change in value of the derivative and the change in the value of the hedged item may not be offsetting at a specific period in time due to small movements in value. However, any amounts recorded as fair value hedges have shown to be highly effective in achieving offsetting changes in fair value both for present and future periods.

The following table shows the effect of derivatives in fair value hedging relationships and the related hedged items on the consolidated statements of operations. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

Hedged items in fair value

Derivatives in fair value hedging relationships	Amount of gain (loss) recognized in net income on derivatives for the three months ended June 30, (1)		Hedged items in fair value hedging relationships	Amount of gain (loss) recognized in net income on related hedged item for the three months ended June 30, (1)	
	2010	2009		2010	2009
	(in millions)			(in millions)	
Interest rate contracts	$ (116.8)	$ 194.7	Fixed maturities, available-for-sale	$ 113.8	$ (174.5)
Interest rate contracts	(4.8)	(27.8)	Investment-type insurance contracts	7.7	34.2
Foreign exchange contracts	6.3	(8.6)	Fixed maturities, available-for-sale	(5.6)	3.7
Foreign exchange contracts	(5.0)	100.0	Investment-type insurance contracts	7.0	(95.4)
Total	$ (120.3)	$ 258.3	Total	$ 122.9	$ (232.0)

Derivatives in fair value hedging relationships	Amount of gain (loss) recognized in net income on derivatives for the six months ended June 30, (1)		Hedged items in fair value hedging relationships	Amount of gain (loss) recognized in net income on related hedged item for the six months ended June 30, (1)	
	2010	2009		2010	2009
	(in millions)			(in millions)	
Interest rate contracts	$ (153.3)	$ 259.1	Fixed maturities, available-for-sale	$ 149.9	$ (237.4)
Interest rate contracts	1.7	(21.7)	Investment-type insurance contracts	1.6	31.2
Foreign exchange contracts	10.9	(6.5)	Fixed maturities, available-for-sale	(9.6)	6.4
Foreign exchange contracts	(43.4)	112.4	Investment-type insurance contracts	44.7	(98.4)
Total	$ (184.1)	$ 343.3	Total	$ 186.6	$ (298.2)

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

4. Derivative Financial Instruments (continued)

(1) The gain (loss) on both derivatives and hedged items in fair value relationships is reported in net realized capital gains (losses) on the consolidated statements of operations. The net amount represents the ineffective portion of our fair value hedges.

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in fair value hedging relationships.

Hedged item	Amount of gain (loss) for the three months ended June 30, 2010	2009	Amount of gain (loss) for the six months ended June 30, 2010	2009
		(in millions)		
Fixed maturities, available-for-sale (1)	**$ (40.5)**	$ (36.1)	**$ (82.4)**	$ (63.7)
Investment-type insurance contracts (2)	**21.2**	27.8	**42.7**	53.6

(1) Reported in net investment income on the consolidated statements of operations.

(2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

Cash Flow Hedges

We utilize floating-to-fixed rate interest rate swaps to eliminate the variability in cash flows of recognized financial assets and liabilities and forecasted transactions.

We enter into currency exchange swap agreements to convert both principal and interest payments of certain foreign denominated assets and liabilities into U.S. dollar denominated fixed-rate instruments to eliminate the exposure to future currency volatility on those items.

The net interest effect of interest rate swap and currency swap transactions for derivatives in cash flow hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

The maximum length of time that we are hedging our exposure to the variability in future cash flows for forecasted transactions, excluding those related to the payments of variable interest on existing financial assets and liabilities, is 10.0 years. At June 30, 2010, we had $93.4 million of gross unrealized gains reported in accumulated other comprehensive income (AOCI) on the consolidated statements of financial position related to active hedges of forecasted transactions. If a hedged forecasted transaction is no longer probable of occurring, cash flow hedge accounting is discontinued. If it is probable that the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income. No amounts were reclassified from AOCI into net realized capital gains (losses) as a result of the determination that hedged cash flows were probable of not occurring during the three and six months ended June 30, 2010. During both the three and six months ended June 30, 2009, $40.4 million of gross unrealized losses were reclassified from AOCI into net realized capital gains (losses) as a result of the determination that hedged cash flows of a forecasted liability issuance were probable of not occurring.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

4. Derivative Financial Instruments (continued)

The following table shows the effect of derivatives in cash flow hedging relationships on the consolidated statements of operations and consolidated statements of financial position. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the three months ended June 30, 2010	2009	Location of gain (loss) reclassified from AOCI into net income (effective portion)	Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the three months ended June 30, 2010	2009
		(in millions)			(in millions)	
Interest rate contracts	Fixed maturities, available-for-sale	**$ (20.8)**	$ (39.1)	Net investment income	**$ 1.6**	$ 1.3
				Net realized capital gains (losses)		(0.6)
Interest rate contracts	Investment-type insurance contracts	**40.9**	44.3	Benefits, claims and settlement expenses	**(0.2)**	(0.2)
Interest rate contracts	Debt		17.5	Operating expense	**(1.2)**	(0.5)
Foreign exchange contracts	Fixed maturities, available-for-sale	**173.8**	(175.4)	Net investment income		
Foreign exchange contracts	Investment-type insurance contracts	**(167.7)**	163.3	Benefits, claims and settlement expenses	**(1.5)**	(1.9)
				Net realized capital gains (losses)		(3.8)
Total		**$ 26.2**	$ 10.6	Total	**$ (1.3)**	$ (5.7)

Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the six months ended June 30, 2010	2009	Location of gain (loss) reclassified from AOCI into net income (effective portion)	Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the six months ended June 30, 2010	2009
		(in millions)			(in millions)	
Interest rate contracts	Fixed maturities, available-for-sale	**$ (27.2)**	$ (0.4)	Net investment income	**$ 3.3**	$ 2.4
				Net realized capital gains (losses)		(0.6)
Interest rate contracts		**43.5**	51.5		**(0.5)**	(0.5)

	Investment-type insurance contracts				Benefits, claims and settlement expenses			
Interest rate contracts	Debt			30.6	Operating expense		**(2.3)**	(0.4)
Foreign exchange contracts	Fixed maturities, available-for-sale		**267.8**	(169.5)	Net investment income			
Foreign exchange contracts	Investment-type insurance contracts		**(243.3)**	72.2	Benefits, claims and settlement expenses		**(3.0)**	(2.6)
					Net realized capital gains (losses)			22.9
Total		**$**	**40.8**	$ (15.6)	Total	**$**	**(2.5)**	$ 21.2

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4. Derivative Financial Instruments (continued)

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in cash flow hedging relationships.

Hedged item	Amount of gain (loss) for the three months ended June 30, 2010	2009	Amount of gain (loss) for the six months ended June 30, 2010	2009
		(in millions)		
Fixed maturities, available-for-sale (1)	**$ 2.0**	$ 4.3	**$ 6.0**	$ 8.1
Investment-type insurance contracts (2)	**(3.3)**	(5.4)	**(7.3)**	(9.0)

(1) Reported in net investment income on the consolidated statements of operations.

(2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

The ineffective portion of our cash flow hedges is reported in net realized capital gains (losses) on the consolidated statements of operations. The net gain resulting from the ineffective portion of interest rate contracts in cash flow hedging relationships was zero for both the three and six months ended June 30, 2010 and 2009. The net gain resulting from the ineffective portion of foreign currency contracts in cash flow hedging relationships was $1.1 million and $1.0 million for the three months ended June 30, 2010 and 2009, respectively, and $1.5 million and $0.4 million for the six months ended June 30, 2010 and 2009, respectively.

We expect to reclassify net gains of $20.9 million from AOCI into net income in the next 12 months, which includes both net deferred gains on discontinued hedges and net deferred losses on periodic settlements of active hedges. Actual amounts may vary from this amount as a result of market conditions.

Net Investment in Foreign Operations Hedges

From time to time, we take measures to hedge our net investments in our foreign subsidiaries from currency risks. We did not use any currency forwards during 2010 or 2009 to hedge our net investment in foreign operations.

Derivatives Not Designated as Hedging Instruments

Our use of futures, certain swaptions and swaps, collars, options and forwards are effective from an economic standpoint, but they have not been designated as hedges for financial reporting purposes. As such, periodic changes in the market value of these instruments, which includes mark-to-market gains and losses as well as periodic and final settlements, primarily flow directly into net realized capital gains (losses) on the consolidated statements of operations. Gains and losses on certain derivatives used in relation to certain trading portfolios are reported in net investment income on the consolidated statements of operations.

The following tables show the effect of derivatives not designated as hedging instruments, including market value changes of embedded derivatives that have been bifurcated from the host contract, on the consolidated statements of operations.

Derivatives not designated as hedging instruments	Amount of gain (loss) recognized in net income on derivatives for the three months ended June 30,		Amount of gain (loss) recognized in net income on derivatives for the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Interest rate contracts	**$ (5.2)**	$ (71.7)	**$ 17.9**	$ (95.1)
Foreign exchange contracts	**(57.3)**	103.9	**(78.9)**	96.0
Equity contracts	**65.6**	(71.5)	**50.9**	(68.5)
Credit contracts	**(19.1)**	72.9	**(17.2)**	48.3
Other contracts (1)	**(75.6)**	16.8	**(67.7)**	25.9
Total	**$ (91.6)**	$ 50.4	**$ (95.0)**	$ 6.6

(1) Primarily includes the change in fair value of embedded derivatives.

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5. Federal Income Taxes

The effective income tax rate for the three months ended June 30, 2010, was lower than the U.S. corporate income tax rate of 35% (U.S. statutory rate) primarily due to a realized capital gain on the restructuring of an equity method investment that is eligible for the indefinite investment exception and income tax deductions allowed for corporate dividends received.

The effective income tax rate for the six months ended June 30, 2010, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, a realized capital gain on the restructuring of an equity method investment that is eligible for the indefinite investment exception and taxes on our share of earnings generated from equity method investments reflected in net investment income.

The effective income tax rate for the three and six months ended June 30, 2009, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income. Taxes on our share of earnings generated from equity method investments reflected in net investment income also contributed to a lower than U.S. statutory rate.

We are a U.S. shareholder in various foreign entities classified as controlled foreign corporations (CFCs) for U.S. tax purposes. U.S. shareholders of CFCs are generally required to take into account as gross income in the U.S. certain passive income earned by the CFCs (Subpart F income) even if the income is not currently distributed. A temporary exception (the active financing exception) was applicable prior to January 1, 2010, to avoid the current recognition of Subpart F income derived in the active conduct of a banking, financing, insurance or similar business. As of June 30, 2010, the U.S. Congress and the President have yet to enact extenders legislation. The tax impact of Subpart F income is immaterial. If extenders legislation is enacted in 2010, we will reverse any tax expense subject to the active financing exception during the quarter of enactment, assuming the legislation is retroactive to January 1, 2010.

The Internal Revenue Service is currently auditing our federal income tax returns for the years 2004 through 2008. We do not expect the results of these audits or developments in other tax areas to significantly change the possible increase in the amount of unrecognized tax benefits, but the outcome of tax reviews is uncertain and unforeseen results can occur. Consistent with December 31, 2009, we estimate that it is reasonably possible that the amount of our unrecognized tax benefit could increase $0.0 to $11.0 million within the next twelve months.

6. Employee and Agent Benefits

Components of net periodic benefit cost:

	Pension benefits For the three months ended June 30,		Other postretirement benefits For the three months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Service cost	**$ 11.4**	$ 12.8	**$ 2.8**	$ 2.8
Interest cost	**26.4**	25.2	**5.3**	4.9
Expected return on plan assets	**(24.6)**	(19.9)	**(7.5)**	(6.5)
Amortization of prior service benefit	**(2.5)**	(1.9)	**(0.5)**	(0.5)
Recognized net actuarial loss	**16.9**	23.2	**1.2**	2.4
Net periodic benefit cost	**$ 27.6**	$ 39.4	**$ 1.3**	$ 3.1

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6. Employee and Agent Benefits (continued)

	Pension benefits For the six months ended June 30,		Other postretirement benefits For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Service cost	**$ 22.8**	$ 25.6	**$ 5.6**	$ 5.6
Interest cost	**52.8**	50.4	**10.6**	9.8
Expected return on plan assets	**(49.2)**	(39.8)	**(15.0)**	(13.0)
Amortization of prior service benefit	**(5.0)**	(3.8)	**(1.0)**	(1.0)
Recognized net actuarial loss	**33.8**	46.4	**2.4**	4.8
Net periodic benefit cost	**$ 55.2**	$ 78.8	**$ 2.6**	$ 6.2

The reduction in net periodic benefit cost for both the three and six months ended June 30, 2010, compared to June 30, 2009, reflects that in 2009 the return on plan assets was greater than expected, resulting in an actuarial gain and higher than expected plan assets at December 31, 2009. The higher asset value increased the expected return on plan assets in 2010 and the actuarial gain reduced the previous actuarial loss and its amortization in 2010.

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (ERISA) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. The minimum annual contribution for 2010 will be zero so we will not be required to fund our qualified pension plan during 2010. However, it is possible that we may fund the qualified and nonqualified pension plans in 2010 for a combined total of $20.0 million to $75.0 million. During both the three and six months ended June 30, 2010, we contributed $20.0 million to these plans.

7. Contingencies, Guarantees and Indemnifications

Litigation and Regulatory Contingencies

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services, life, health and disability insurance. Some of the lawsuits are class actions, or purport to be, and some include claims for unspecified or substantial punitive and treble damages. In addition, regulatory bodies such as state insurance departments, the SEC, the Financial Industry Regulatory Authority, the Department of Labor and other regulatory agencies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers. We receive requests from regulators and other governmental authorities relating to industry issues and may receive additional requests, including subpoenas and interrogatories, in the future.

On November 8, 2006, a trustee of Fairmount Park Inc. Retirement Savings Plan filed a putative class action lawsuit in the United States District Court for the Southern District of Illinois against Principal Life. Principal Life s motion to transfer venue was granted and the case is now pending in the Southern District of Iowa. The complaint alleged, among other things, that Principal Life breached its alleged fiduciary duties while performing services to 401(k) plans by failing to disclose, or adequately disclose, to employers or plan participants the fact that Principal Life receives revenue sharing fees from mutual funds that are included in its pre-packaged 401(k) plans and allegedly failed to use the revenue to defray the expenses of the services provided to the plans. Plaintiff further alleged that these acts constitute prohibited transactions under ERISA. Plaintiff sought to certify a class of all retirement plans to which Principal Life was a service provider and for which Principal Life received and retained revenue sharing fees from mutual funds. On August 27, 2008, the plaintiff s motion for class certification was denied. The plaintiff s new motion for class certification, filed May 11, 2009, was stricken by the court on March 31, 2010. Principal Life continues to aggressively defend the lawsuit.

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Principal Financial Group, Inc.
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7. Contingencies, Guarantees and Indemnifications (continued)

On August 28, 2007, a putative class action lawsuit was filed by Patricia Walsh (and another plaintiff, who subsequently withdrew) in the United States District Court for the Southern District of Iowa against Principal Life and Princor Financial Services Corporation (the Walsh Defendants). The lawsuit alleges that the Walsh Defendants breached alleged fiduciary duties to participants in employer-sponsored 401(k) plans who were retiring or leaving their respective plans, including providing misleading information and failing to act solely in the interests of the participants, resulting in alleged violations of ERISA. The plaintiff s motion for class certification was denied on March 24, 2010. On July 7, 2010, the plaintiffs filed a voluntary dismissal with prejudice.

On October 28, 2009, Judith Curran filed a derivative action lawsuit on behalf of the Principal Funds, Inc. and Strategic Asset Management Portfolio in the United States District Court for the Southern District of Iowa against Principal Management Corporation, Principal Global Investors, LLC, and Principal Funds Distributor, Inc. (the Curran Defendants). The lawsuit alleges the Curran Defendants breached their fiduciary duty under Section 36(b) of the Investment Company Act by charging advisory fees and distribution fees that were excessive. The Curran Defendants filed a motion to dismiss the case on January 29, 2010. That motion was granted in part and overruled in part. Principal Global Investors, LLC was dismissed from the suit. The remaining Curran Defendants are aggressively defending the lawsuit.

On December 2, 2009 and December 4, 2009, two plaintiffs, Cruise and Mullaney, each filed putative class action lawsuits in the United States District Court for the Southern District of New York against us, Principal Life, Principal Global Investors, LLC, and Principal Real Estate Investors, LLC (the Cruise/Mullaney Defendants). The lawsuits alleged the Cruise/Mullaney Defendants failed to manage the Principal U.S. Property Separate Account (PUSPSA) in the best interests of investors, improperly imposed a withdrawal freeze on September 26, 2008, and instituted a withdrawal queue to honor withdrawal requests as sufficient liquidity became available. Plaintiffs allege these actions constitute a breach of fiduciary duties under ERISA. Plaintiffs seek to certify a class including all qualified ERISA plans and the participants of those plans that invested in PUSPSA between September 26, 2008, and the present that have suffered losses caused by the queue. The two lawsuits, as well as two subsequently filed complaints asserting similar claims, have been consolidated and are now known as *In re Principal U.S. Property Account Litigation*. On April 22, 2010, an order was entered granting the motion made by the Cruise/Mullaney Defendants for change of venue to the United States District Court for the Southern District of Iowa. The Cruise/Mullaney Defendants are aggressively defending the lawsuit.

On July 1, 2010, Debra and Russell Hurd filed a putative class action lawsuit in the United States District Court for the Southern District of Iowa against us and Principal Life (the Hurd Defendants). The complaint alleges the Hurd Defendants underpay out-of-network health claims by using an allegedly flawed database to calculate usual and customary charges. Plaintiffs are suing on behalf of all participants and/or beneficiaries in group health plans in the United States issued, insured or administered by [us] as to which [we] have administered claims and/or paid or denied benefits for out-of-network benefit claims. The complaint alleges four causes of action, all based on violations of ERISA. The Hurd Defendants are aggressively defending the lawsuit.

While the outcome of any pending or future litigation or regulatory matter cannot be predicted, management does not believe that any pending litigation or regulatory matter will have a material adverse effect on our business or financial position. The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a particular quarter or annual

period.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to a former subsidiary, joint ventures and industrial revenue bonds. These agreements generally expire through 2019. The maximum exposure under these agreements as of June 30, 2010, was approximately $205.0 million. At inception, the fair value of such guarantees was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event that performance is required under the guarantees or other recourse generally available to us; therefore, such guarantees would not result in a material adverse effect on our business or financial position. It is possible that performance under these guarantees could materially affect net income in a particular quarter or annual period.

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7. Contingencies, Guarantees and Indemnifications (continued)

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

8. Stockholders Equity

Reconciliation of Outstanding Shares

	Series A preferred stock	Series B preferred stock	Common stock
		(in millions)	
Outstanding shares at January 1, 2009	3.0	10.0	259.3
Shares issued			59.2
Treasury stock acquired			(0.2)
Outstanding shares at June 30, 2009	3.0	10.0	318.3
Outstanding shares at January 1, 2010	**3.0**	**10.0**	**319.0**
Shares issued			**0.9**
Treasury stock acquired			**(0.1)**
Outstanding shares at June 30, 2010	**3.0**	**10.0**	**319.8**

In May 2009 we issued 58.2 million shares of common stock at a price of $19.75 per share. Net proceeds from the issuance were $1,109.1 million. The proceeds from this offering were used for general corporate purposes.

Comprehensive income is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Net income	**$ 144.2**	$ 164.0	**$ 347.8**	$ 286.6
Net change in unrealized gains on fixed maturities, available-for-sale	**799.7**	3,086.2	**1,762.3**	3,097.0
Net change in noncredit component of impairment losses on fixed maturities, available-for-sale	**(52.6)**	(66.5)	**(58.0)**	(117.1)
Net change in unrealized gains (losses) on equity securities, available-for-sale	**(7.6)**	35.8	**(6.3)**	(16.5)
Net change in unrealized gains (losses) on equity method subsidiaries and noncontrolling interest adjustments	**(68.4)**	56.5	**(92.5)**	121.4
Adjustments for assumed changes in amortization patterns	**(173.9)**	(532.2)	**(377.4)**	(360.4)
Adjustments for assumed changes in liability for policyholder benefits and claims	**(90.5)**	(0.8)	**(133.9)**	(40.1)
Net change in unrealized gains (losses) on derivative instruments	**48.0**	4.7	**49.1**	(20.9)
Change in net foreign currency translation adjustment	**(74.5)**	85.1	**(80.3)**	109.2
Change in unrecognized postretirement benefit obligation	**15.0**	22.9	**30.2**	46.0
Provision for deferred income taxes	**(168.5)**	(892.8)	**(412.9)**	(939.5)
Comprehensive income	**$ 370.9**	$ 1,962.9	**$ 1,028.1**	$ 2,165.7

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9. Fair Value Measurements

We use fair value measurements to record fair value of certain assets and liabilities and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed at fair value. Certain financial instruments, particularly policyholder liabilities other than investment-type insurance contracts, are excluded from these fair value disclosure requirements.

Fair value of financial instruments

The carrying value and estimated fair value of financial instruments were as follows:

	June 30, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in millions)			
Assets (liabilities)				
Fixed maturities, available-for-sale	**$ 48,230.1**	**$ 48,230.1**	$ 46,220.6	$ 46,220.6
Fixed maturities, trading	**1,245.2**	**1,245.2**	1,032.4	1,032.4
Equity securities, available-for-sale	**171.3**	**171.3**	214.0	214.0
Equity securities, trading	**222.8**	**222.8**	221.5	221.5
Mortgage loans	**11,292.6**	**11,469.3**	11,845.6	11,407.8
Policy loans	**894.4**	**1,016.2**	902.5	1,022.6
Other investments	**305.0**	**305.0**	188.5	188.5
Cash and cash equivalents	**1,827.3**	**1,827.3**	2,240.4	2,240.4
Derivative assets	**1,389.9**	**1,389.9**	1,232.2	1,232.2
Separate account assets	**60,735.0**	**60,735.0**	62,738.5	62,738.5
Cash collateral	**242.9**	**242.9**	386.4	386.4
Investment-type insurance contracts	**(34,517.3)**	**(33,127.1)**	(35,672.8)	(34,181.0)
Short-term debt	**(126.5)**	**(126.5)**	(101.6)	(101.6)
Long-term debt	**(1,572.4)**	**(1,683.6)**	(1,584.6)	(1,608.4)
Separate account liabilities	**(54,967.5)**	**(53,988.5)**	(56,897.4)	(55,867.5)
Derivative liabilities	**(1,455.4)**	**(1,455.4)**	(1,050.8)	(1,050.8)
Bank deposits	**(2,215.0)**	**(2,222.7)**	(2,185.8)	(2,188.5)
Cash collateral payable	**(242.9)**	**(242.9)**	(367.8)	(367.8)
Other liabilities	**(244.8)**	**(244.8)**	(99.2)	(99.2)

Valuation hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

- **Level 1** Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Our Level 1 assets and liabilities primarily include exchange traded equity securities, mutual funds and U.S. Treasury bonds.

- **Level 2** Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Our Level 2 assets and liabilities primarily include fixed maturities (including public and private bonds), equity securities, over-the-counter derivatives and other investments for which public quotations are not available but that are priced by third-party pricing services or internal models using substantially all observable inputs.

- **Level 3** Fair values are based on significant unobservable inputs for the asset or liability. Our Level 3 assets and liabilities include certain fixed maturities, private equity securities, real estate and commercial mortgage loan investments of our separate accounts, commercial mortgage loan investments and obligations of consolidated VIEs for which the fair value option was elected, complex derivatives and embedded derivatives that must be priced using broker quotes or other valuation methods that utilize at least one significant unobservable input.

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9. Fair Value Measurements (continued)

Determination of fair value

The following discussion describes the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis or disclosed at fair value. The techniques utilized in estimating the fair values of financial instruments are reliant on the assumptions used. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. We validate prices through an investment analyst review process, which includes validation through direct interaction with external sources, review of recent trade activity or use of internal models. In circumstances where broker quotes are used to value an instrument, we generally receive one non-binding quote. Broker quotes are validated through an investment analyst review process, which includes validation through direct interaction with external sources and use of internal models or other relevant information. We did not make any significant changes to our valuation processes during the second quarter of 2010.

Fixed Maturities

Fixed maturities include bonds, asset-backed securities, redeemable preferred stock and certain nonredeemable preferred stock. When available, the fair value of fixed maturities is based on quoted prices of identical assets in active markets. These are reflected in Level 1 and primarily include U.S. Treasury bonds and actively traded redeemable corporate preferred securities.

When quoted prices are not available, our first priority is to obtain prices from third party pricing vendors. We have regular interaction with these vendors to ensure we understand their pricing methodologies and to confirm they are utilizing observable market information. Their methodologies vary by asset class and include inputs such as estimated cash flows, benchmark yields, reported trades, broker quotes, credit quality, industry events and economic events. Fixed maturities with validated prices from pricing services, which includes the majority of our public fixed maturities in all asset classes, are generally reflected in Level 2. Also included in Level 2 are corporate bonds where quoted market prices are not available, for which a matrix pricing valuation approach is used. In this approach, securities are grouped into pricing categories that vary by sector, rating and average life. Each pricing category is assigned a risk spread based on studies of observable public market data from the investment professionals assigned to specific security classes. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread. Although the matrix valuation approach provides a fair valuation of each pricing category, the valuation of an individual security within each pricing category may actually be impacted by company specific factors.

If we are unable to price a fixed maturity security using prices from third party pricing vendors or other sources specific to the asset class, we may obtain a broker quote or utilize an internal pricing model specific to the asset utilizing relevant market information, to the extent available, which are reflected in Level 3 and can include fixed maturities across all asset classes. These models primarily use projected cash flows discounted using a rate derived from market interest rate curves and relevant risk spreads. As of June 30, 2010, less than 1% of our fixed maturities, which were classified as Level 3 assets, were valued using internal pricing models.

Equity Securities

Equity securities include mutual funds, common stock and nonredeemable preferred stock. Fair values of equity securities are determined using quoted prices in active markets for identical assets when available, which are reflected in Level 1. When quoted prices are not available, we may utilize internal valuation methodologies appropriate for the specific asset that use observable inputs such as underlying share prices, which are reflected in Level 2. Fair values might also be determined using broker quotes or through the use of internal models or analysis that incorporate significant assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such securities, which are reflected in Level 3.

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Principal Financial Group, Inc.
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9. Fair Value Measurements (continued)

Mortgage Loans

Mortgage loans are not measured at fair value on a recurring basis. Fair values of commercial and residential mortgage loans are primarily determined by discounting the expected cash flows at current treasury rates plus an applicable risk spread, which reflects credit quality and maturity of the loans. The risk spread is based on market clearing levels for loans with comparable credit quality, maturities and risk. The fair value of mortgage loans may also be based on the fair value of the underlying real estate collateral, which is estimated using appraised values.

Policy Loans

Policy loans are not measured at fair value on a recurring basis. Fair values of policy loans are estimated by discounting expected cash flows using a risk-free rate based on the U.S. Treasury curve.

Derivatives

The fair values of exchange-traded derivatives are determined through quoted market prices, which are reflected in Level 1. Exchange-traded derivatives include interest rate and equity futures that are settled daily such that their fair value is not reflected in the consolidated statements of financial position. The fair values of over-the-counter derivative instruments are determined using either pricing valuation models that utilize market observable inputs or broker quotes. The majority of our over-the-counter derivatives are valued with models that use market observable inputs, which are reflected in Level 2. Significant inputs include contractual terms, interest rates, currency exchange rates, credit spread curves, equity prices, and volatilities. These valuation models consider projected discounted cash flows, relevant swap curves, and appropriate implied volatilities. Certain over-the-counter derivatives utilize unobservable market data, primarily independent broker quotes that are nonbinding quotes based on models that do not reflect the result of market transactions, which are reflected in Level 3.

Our derivative contracts are generally documented under ISDA Master Agreements, which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Collateral arrangements are bilateral and based on current ratings of each entity. We utilize the LIBOR interest rate curve to value our positions, which includes a credit spread. This credit spread incorporates an appropriate level of nonperformance risk into our valuations given the current ratings of our counterparties, as well as the collateral agreements in place. Counterparty credit risk is routinely monitored to ensure our adjustment for non-performance risk is appropriate.

Interest rate contracts. We use discounted cash flow valuation techniques to determine the fair value of interest rate swaps using observable swap curves as the inputs. These are reflected in Level 2. In addition, we have a limited number of complex inflation-linked interest rate swaps and interest rate collars that are valued using broker quotes. These are reflected in Level 3. We use option pricing models to determine the fair value of swaptions using observable swap interest rate curves and observable implied volatilities as inputs. These are reflected in Level 2.

Foreign exchange contracts. We use discounted cash flow valuation techniques that utilize observable swap curves and exchange rates as the inputs to determine the fair value of foreign currency swaps. These are reflected in Level 2. In addition, we have a limited number of non-standard currency swaps that are valued using broker quotes. These are reflected within Level 3. Currency forwards are valued using observable market inputs, including forward currency exchange rates. These are reflected in Level 2.

Equity contracts. We use an option pricing model using observable implied volatilities, dividend yields, index prices and swap curves as the inputs to determine the fair value of equity options. These are reflected in Level 2.

Credit contracts. We use either the ISDA Credit Default Swap Standard discounted cash flow model that utilizes observable default probabilities and recovery rates as inputs or broker prices to determine the fair value of credit default swaps. These are reflected in Level 3.

Other contracts. We use broker prices to determine the fair value of commodity swaps. These are reflected in Level 3.

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Principal Financial Group, Inc.
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9. Fair Value Measurements (continued)

Other Investments

Other investments reported at fair value primarily include seed money investments, for which the fair value is determined using the net asset value of the fund. The net asset value of the fund represents the price at which we feel we would be able to initiate a transaction. Seed money investments in mutual funds for which the net asset value is published are reflected in Level 1. Seed money investments in mutual funds or other investment funds in markets that do not have a published net asset value are reflected in Level 2.

Other investments reported at fair value also include commercial mortgage loans of consolidated VIEs for which the fair value option was elected, which are reflected in Level 3. Fair value of these commercial mortgage loans is computed utilizing a discount rate based on the current market. The market discount rate is then adjusted based on various factors that differentiate it from our pool of loans.

The carrying amounts of other assets classified as other investments in the accompanying consolidated statements of financial position, which are not measured at fair value on a recurring basis, approximate their fair values.

Cash and Cash Equivalents

Certain cash equivalents are reported at fair value on a recurring basis and include money market instruments and other short-term investments with maturities of less than three months. Fair values of these cash equivalents may be determined using public quotations, when available, which are reflected in Level 1. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values, which are reflected in Level 2.

The carrying amounts of cash and cash equivalents that are not reported at fair value on a recurring basis approximate their fair value.

Separate Account Assets

Separate account assets include equity securities, debt securities and derivative instruments, for which fair values are determined as previously described, and are reflected in Level 1, Level 2 and Level 3. Separate account assets also include commercial mortgage loans, for which the fair value is estimated by discounting the expected total cash flows using market rates that are applicable to the yield, credit quality and maturity of the loans. The market clearing spreads vary based on mortgage type, weighted average life, rating and liquidity. These are reflected in Level 3. Finally, separate account assets include real estate, for which the fair value is estimated using discounted cash flow valuation models that utilize public real estate market data inputs such as transaction prices, market rents, vacancy levels, leasing absorption, market cap rates and discount rates. In addition, each property is appraised annually by an independent appraiser. The real estate within the separate accounts is reflected in Level 3.

Cash Collateral and Cash Collateral Payable

Cash collateral is not measured at fair value on a recurring basis. The carrying amounts of cash collateral received and posted under derivative credit support annex (collateral) agreements and the carrying amount of the payable associated with our obligation to return the cash collateral received approximate their fair value.

Investment-Type Insurance Contracts

Investment-type insurance contracts are not measured at fair value on a recurring basis. The fair values of our reserves and liabilities for investment-type insurance contracts are estimated using discounted cash flow analyses based on current interest rates, including non-performance risk, being offered for similar contracts with maturities consistent with those remaining for the investment-type contracts being valued. Investment-type insurance contracts include insurance, annuity and other policy contracts that do not involve significant mortality or morbidity risk and are only a portion of the policyholder liabilities appearing in the consolidated statements of financial position. Insurance contracts include insurance, annuity and other policy contracts that do involve significant mortality or morbidity risk. The fair values for our insurance contracts, other than investment-type contracts, are not required to be disclosed.

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

9. Fair Value Measurements (continued)

Certain annuity contracts and other investment-type insurance contracts include embedded derivatives that have been bifurcated from the host contract and that are measured at fair value on a recurring basis, which are reflected in Level 3. The key assumptions for calculating the fair value of the embedded derivative liabilities are market assumptions (such as equity market returns, interest rate levels, market volatility, correlations, among other things) and policyholder behavior assumptions (such as lapse, mortality, utilization, withdrawal patterns, among other things). They are valued using a combination of historical data and actuarial judgment. Stochastic models are used to value the embedded derivatives that incorporate a spread reflecting our own creditworthiness and risk margins.

The assumption for our own non-performance risk for investment-type insurance contracts and any embedded derivatives bifurcated from certain annuity and investment-type insurance contracts is based on the current market credit spreads for debt-like instruments that we have issued and are available in the market.

Short-Term Debt

Short-term debt is not measured at fair value on a recurring basis. The carrying amount of short-term debt approximates its fair value because of the relatively short time between origination of the debt instrument and its maturity.

Long-Term Debt

Long-term debt is not measured at fair value on a recurring basis. Fair values for debt issues are estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.

Separate Account Liabilities

Separate account liabilities are not measured at fair value on a recurring basis. Fair values of separate account liabilities, excluding insurance-related elements, are estimated based on market assumptions around what a potential acquirer would pay for the associated block of business, including both the separate account assets and liabilities. As the applicable separate account assets are already reflected at fair value, any adjustment to the fair value of the block is an assumed adjustment to the separate account liabilities. To compute fair value, the separate

account liabilities are originally set to equal separate account assets because these are pass-through contracts. The separate account liabilities are reduced by the amount of future fees expected to be collected that are intended to offset upfront acquisition costs already incurred that a potential acquirer would not have to pay. The estimated future fees are adjusted by an adverse deviation discount and the amount is then discounted at a risk-free rate as measured by the yield on U.S. Treasury securities at maturities aligned with the estimated timing of fee collection.

Bank Deposits

Bank deposits are not measured at fair value on a recurring basis. The fair value of deposits of our Principal Bank subsidiary with no stated maturity, such as demand deposits, savings, and interest-bearing demand accounts, is equal to the amount payable on demand (i.e., their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Other Liabilities

Certain obligations reported in other liabilities include embedded derivatives to deliver underlying securities of structured investments to third parties. The fair value of the embedded derivatives is calculated based on the value of the underlying securities. We have had an embedded derivative in which the fair value of the underlying securities was obtained from a third party pricing vendor and was reflected in Level 2. We also have an embedded derivative in which the fair value of the underlying securities is calculated utilizing the yield, credit quality and average maturity of each security, which is reflected in Level 3.

Additionally, obligations of consolidated VIEs for which the fair value option was elected are included in other liabilities. These obligations are valued either based on prices obtained from third party pricing vendors as utilized and described in our discussion of how fair value is determined for fixed maturities, which are reflected in Level 2, or broker quotes, which are reflected in Level 3.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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9. Fair Value Measurements (continued)

Assets and liabilities measured at fair value on a recurring basis

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	As of June 30, 2010			
	Assets / (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
		(in millions)		
Assets				
Fixed maturities, available-for-sale				
U.S. government and agencies	$ 609.0	$ 28.9	$ 580.1	$
Non-U.S. governments	848.7		824.1	24.6
States and political subdivisions	2,358.1		2,345.7	12.4
Corporate	34,086.7	92.0	33,366.7	628.0
Residential mortgage-backed securities	3,062.4		3,062.4	
Commercial mortgage-backed securities	3,848.2		3,821.1	27.1
Collateralized debt obligations	353.5		187.9	165.6
Other debt obligations	3,063.5		2,981.3	82.2
Total fixed maturities, available-for-sale	48,230.1	120.9	47,169.3	939.9
Fixed maturities, trading	1,245.2	185.7	818.9	240.6
Equity securities, available-for-sale	171.3	125.3	2.2	43.8
Equity securities, trading	222.8	129.1	93.7	
Derivative assets (1)	1,389.9		1,352.5	37.4
Other investments (2)	201.5	15.5	55.6	130.4
Cash equivalents (3)	1,036.8	65.1	971.7	
Sub-total excluding separate account assets	52,497.6	641.6	50,463.9	1,392.1
Separate account assets	60,735.0	39,249.6	17,525.0	3,960.4
Total assets	$ 113,232.6	$ 39,891.2	$ 67,988.9	$ 5,352.5
Liabilities				
Investment-type insurance contracts (4)	$ (78.2)	$	$	$ (78.2)
Derivative liabilities (1)	(1,455.4)		(1,219.0)	(236.4)
Other liabilities (4)	(244.8)		(99.5)	(145.3)
Total liabilities	$ (1,778.4)	$	$ (1,318.5)	$ (459.9)
Net assets	$ 111,454.2	$ 39,891.2	$ 66,670.4	$ 4,892.6

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

9. Fair Value Measurements (continued)

	As of December 31, 2009			
	Assets / (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
	(in millions)			
Assets				
Fixed maturities, available-for-sale				
U.S. government and agencies	$ 558.7	$ 25.1	$ 533.6	$
Non-U.S. governments	854.9		838.8	16.1
States and political subdivisions	2,048.6		2,037.1	11.5
Corporate	32,930.8	100.8	32,092.7	737.3
Residential mortgage-backed securities	3,133.1		3,133.1	
Commercial mortgage-backed securities	3,599.7		3,565.4	34.3
Collateralized debt obligations	369.6		72.8	296.8
Other debt obligations	2,725.2		2,648.6	76.6
Total fixed maturities, available-for-sale	46,220.6	125.9	44,922.1	1,172.6
Fixed maturities, trading	1,032.4	189.4	779.5	63.5
Equity securities, available-for-sale	214.0	139.9	2.4	71.7
Equity securities, trading	221.5	130.9	90.6	
Derivative assets (1)	1,232.2		1,177.8	54.4
Other investments (2)	74.7	15.7	59.0	
Cash equivalents (3)	1,565.3	815.1	750.2	
Sub-total excluding separate account assets	50,560.7	1,416.9	47,781.6	1,362.2
Separate account assets	62,738.5	40,503.0	18,114.8	4,120.7
Total assets	$ 113,299.2	$ 41,919.9	$ 65,896.4	$ 5,482.9
Liabilities				
Investment-type insurance contracts (4)	$ (23.6)	$	$	$ (23.6)
Derivative liabilities (1)	(1,050.8)		(957.1)	(93.7)
Other liabilities (4)	(99.2)		(10.1)	(89.1)
Total liabilities	$ (1,173.6)	$	$ (967.2)	$ (206.4)
Net assets	$ 112,125.6	$ 41,919.9	$ 64,929.2	$ 5,276.5

(1) Within the consolidated statements of financial position, derivative assets are reported with other investments and derivative liabilities are reported with other liabilities. Refer to Note 4, Derivative Financial Instruments, for further information on fair value by class of derivative instruments. Our derivatives are primarily Level 2, with the exception of some credit default swaps and other swaps that are Level 3.

(2) Primarily includes seed money investments and, beginning in 2010, commercial mortgage loans of consolidated VIEs reported at fair value.

(3) Includes short-term investments with a maturity date of three months or less when purchased.

(4) Includes bifurcated embedded derivatives that are reported at fair value within the same line item in the consolidated statements of financial position in which the host contract is reported and, beginning in 2010, other liabilities include obligations of consolidated VIEs reported at fair value.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

9. Fair Value Measurements (continued)

Changes in Level 3 fair value measurements

The reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are summarized as follows:

	For the three months ended June 30, 2010						
	Beginning asset / (liability) balance as of March 31, 2010	Total realized/unrealized gains (losses)		Purchases, sales, issuances and settlements	Transfers in (out) of Level 3	Ending asset / (liability) balance as of June 30, 2010	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income				
				(in millions)			
Assets							
Fixed maturities, available-for-sale							
Non-U.S. governments	$ 24.5	$	$	$ 0.1	$	$ 24.6	$
State and political subdivisions			0.9		11.5	12.4	
Corporate	716.5	13.2	3.4	(72.1)	(33.0)	628.0	7.0
Commercial mortgage-backed securities	47.7		0.5	(1.6)	(19.5)	27.1	
Collateralized debt obligations	273.9	(3.2)	(10.3)	(31.1)	(63.7)	165.6	(3.2)
Other debt obligations	112.1		2.0	5.9	(37.8)	82.2	
Total fixed maturities, available-for-sale	1,174.7	10.0	(3.5)	(98.8)	(142.5)	939.9	3.8
Fixed maturities, trading	267.5	(5.9)		(21.0)		240.6	(6.1)
Equity securities, available-for-sale	42.9	(0.3)	(3.7)	4.8	0.1	43.8	(0.3)
Derivative assets	42.8	(5.3)		(0.1)		37.4	(5.3)
Other investments	117.3	17.2		(4.1)		130.4	17.2
Separate account assets	4,068.7	80.5	(0.4)	(215.2)	26.8	3,960.4	79.1
Liabilities							
Investment-type insurance contracts	(8.5)	(76.2)		6.5		(78.2)	(75.2)
Derivative liabilities	(209.1)	(25.8)	(1.5)			(236.4)	(24.1)
Other liabilities (2)	(143.5)	10.4	(7.7)	(4.5)		(145.3)	10.4

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements (continued)

June 30, 2010

(Unaudited)

9. Fair Value Measurements (continued)

	For the three months ended June 30, 2009						
	Beginning asset / (liability) balance as of March 31, 2009	Total realized/unrealized gains (losses)		Purchases, sales, issuances and settlements	Transfers in (out) of Level 3	Ending asset / (liability) balance as of June 30, 2009	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income				
				(in millions)			
Assets							
Fixed maturities, available-for-sale							
Non-U.S. governments	$ 48.3	$ (0.1)	$ 2.3	$ (2.5)	$	$ 48.0	$ (0.1)
Corporate	739.2	(10.2)	15.6	(108.5)	159.9	796.0	(16.1)
Commercial mortgage-backed securities	47.7	(0.3)	8.6	(5.7)	(16.1)	34.2	(0.3)
Collateralized debt obligations	204.7	(13.6)	60.1	(3.1)		248.1	(13.6)
Other debt obligations	66.1	(1.4)	14.3	21.9	16.5	117.4	(1.4)
Total fixed maturities, available-for-sale	1,106.0	(25.6)	100.9	(97.9)	160.3	1,243.7	(31.5)
Fixed maturities, trading	58.3	9.9				68.2	9.9
Equity securities, available-for-sale	32.4	(6.2)	24.8	(25.9)		25.1	
Derivative assets	90.1	(18.8)		(3.7)		67.6	(16.3)
Separate account assets	5,408.9	(418.3)		(108.3)	4.4	4,886.7	(411.8)
Liabilities							
Investment-type insurance contracts	(50.7)	12.2		7.3		(31.2)	13.2
Derivative liabilities	(271.7)	105.8	0.4			(165.5)	106.9
Other liabilities (2)	(45.0)		17.6	(4.6)		(32.0)	

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

9. Fair Value Measurements (continued)

	For the six months ended June 30, 2010						
	Beginning asset / (liability) balance as of December 31, 2009	Total realized/unrealized gains (losses)		Purchases, sales, issuances and settlements (3)	Transfers in (out) of Level 3	Ending asset / (liability) balance as of June 30, 2010	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income				
				(in millions)			
Assets							
Fixed maturities, available-for-sale							
Non-U.S. governments	$ 16.1	$	$ 0.1	$ 8.4	$	$ 24.6	$
State and political subdivisions	11.5		0.9			12.4	
Corporate	737.3	17.6	11.2	(142.3)	4.2	628.0	1.3
Commercial mortgage-backed securities	34.3		1.0	11.3	(19.5)	27.1	
Collateralized debt obligations	296.8	(14.8)	12.1	(42.7)	(85.8)	165.6	(3.2)
Other debt obligations	76.6		3.0	40.4	(37.8)	82.2	
Total fixed maturities, available-for-sale	1,172.6	2.8	28.3	(124.9)	(138.9)	939.9	(1.9)
Fixed maturities, trading	63.5	1.4		175.7		240.6	1.1
Equity securities, available-for-sale	71.7	2.5	(10.4)	(18.5)	(1.5)	43.8	2.5
Derivative assets	54.4	(14.3)		(2.7)		37.4	(13.2)
Other investments		20.9		109.5		130.4	20.9
Separate account assets	4,120.7	58.2	(0.6)	(237.2)	19.3	3,960.4	58.1
Liabilities							
Investment-type insurance contracts	(23.6)	(68.2)		13.6		(78.2)	(68.0)
Derivative liabilities	(93.7)	(21.3)	(2.3)	(119.1)		(236.4)	(21.4)
Other liabilities (2)	(89.1)	10.8	(27.5)	(39.5)		(145.3)	10.7

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

9. Fair Value Measurements (continued)

	For the six months ended June 30, 2009						
	Beginning asset / (liability) balance as of December 31, 2008	Total realized/unrealized gains (losses)		Purchases, sales, issuances and settlements	Transfers in (out) of Level 3	Ending asset / (liability) balance as of June 30, 2009	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income				
				(in millions)			
Assets							
Fixed maturities, available-for-sale							
Non-U.S. governments	$ 45.3	$ 0.2	$ 1.1	$ 1.4	$	$ 48.0	$ 0.2
Corporate	750.9	(32.8)	(1.5)	(134.2)	213.6	796.0	(32.8)
Commercial mortgage-backed securities	58.0	(0.3)	4.3	(8.6)	(19.2)	34.2	(0.3)
Collateralized debt obligations	236.8	(41.3)	65.7	(5.2)	(7.9)	248.1	(41.1)
Other debt obligations	82.0	(1.4)	14.9	30.0	(8.1)	117.4	(1.4)
Total fixed maturities, available-for-sale	1,173.0	(75.6)	84.5	(116.6)	178.4	1,243.7	(75.4)
Fixed maturities, trading	60.7	8.5			(1.0)	68.2	8.5
Equity securities, available-for-sale	56.2		2.6	(33.7)		25.1	
Derivative assets	100.7	(29.6)	(0.1)	(3.4)		67.6	(25.1)
Separate account assets	6,042.3	(993.9)		(163.3)	1.6	4,886.7	(952.9)
Liabilities							
Investment-type insurance contracts	(60.2)	16.1		12.9		(31.2)	16.3
Derivative liabilities	(266.9)	97.6	3.8			(165.5)	101.2
Other liabilities (2)	(103.8)		81.0	(9.2)		(32.0)	

(1) Both realized gains (losses) and mark-to-market unrealized gains (losses) are generally reported in net realized capital gains (losses) within the consolidated statements of operations. Realized and unrealized gains (losses) on certain fixed maturities, trading and certain derivatives used in relation to certain trading portfolios are reported in net investment income within the consolidated statements of operations. Gains and losses for separate account assets do not impact net income as the change in value of separate account assets is offset by a change in value of separate account liabilities.

(2) Certain embedded derivatives reported in other liabilities are part of a cash flow hedge, with the effective portion of the unrealized gains (losses) recorded in accumulated other comprehensive income.

(3) As a result of our implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010, certain previously unconsolidated VIEs were consolidated and certain previously consolidated VIEs were deconsolidated. The fair value of the Level 3 assets and liabilities of the newly consolidated and deconsolidated VIEs is primarily included in fixed maturities, trading; other investments; derivative liabilities and other liabilities.

Transfers

Transfers between fair value hierarchy levels are recognized at the beginning of the reporting period.

Assets transferred into Level 3 during the three months ended June 30, 2010 and 2009, were $64.5 million and $205.7 million, respectively, and during the six months ended June 30, 2010 and 2009, were $154.5 million and $305.0 million, respectively. The majority of assets transferred into Level 3 include assets added to our watch list that were previously priced using a matrix pricing valuation approach that may no longer be relevant when applied to asset-specific situations.

Assets transferred out of Level 3 during the three months ended June 30, 2010 and 2009, were $180.1 million and $41.0 million, respectively, and during the six months ended June 30, 2010 and 2009, were $275.6 million and $126.0 million, respectively. The majority of assets that transferred out of Level 3 include those for which we are now able to obtain pricing from a recognized third party pricing vendor.

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Principal Financial Group, Inc.
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9. Fair Value Measurements (continued)

Significant transfers into Level 2 during the three and six months ended June 30, 2010, and out of Level 2 during the six months ended June 30, 2010, primarily include $3,266.1 million of separate account assets that transferred out of Level 2 into Level 1 during the three months ended March 31, 2010, and $3,128.3 million of separate account assets that transferred out of Level 1 into Level 2 during the three months ended June 30, 2010. These transfers related to foreign equity securities that were valued using adjusted prices provided by a third party vendor as of December 31, 2009, which is reflected in Level 2; that were valued at the local close price of the exchange where the assets traded as of March 31, 2010, which is reflected in Level 1; and that were valued using adjusted prices provided by a third party vendor as of June 30, 2010, which is reflected in Level 2. When events materially affecting the value occur between the close of the local exchange and the New York Stock Exchange, we use adjusted prices determined by a third party pricing vendor to update the foreign market closing prices. Other transfers into and out of Level 2 during the three and six months ended June 30, 2010, primarily include those that transferred out of and into Level 3, respectively.

Significant transfers into Level 1 during the six months ended June 30, 2010, and out of Level 1 during the three and six months ended June 30, 2010, include the separate account assets transferred out of and into Level 2, respectively. We did not have any significant transfers into Level 1 during the three months ended June 30, 2010.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets are measured at fair value on a nonrecurring basis. During the six months ended June 30, 2010, certain mortgage loans had been impaired or written down to fair value of $135.1 million. The impairments resulted in a loss of $4.3 million and $12.8 million for the three and six months ended June 30, 2010, respectively, that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values.

During the six months ended June 30, 2010, real estate with an aggregate cost of $1.7 million had been written down to fair value of $1.4 million. This write down resulted in a loss of $0.1 million and $0.3 million for the three and six months ended June 30, 2010, respectively, that was recorded in net realized capital gains (losses). This is a Level 3 fair value measurement, as the fair value of real estate is estimated using appraised values that involve significant unobservable inputs.

During the six months ended June 30, 2010, mortgage servicing rights with an aggregate cost of $5.7 million had been written down to fair value of $5.1 million, resulting in a charge of $0.6 million for both the three and six months ended June 30, 2010, that was recorded in operating expenses. These mortgage servicing rights are a Level 3 fair value measurement, as fair value is determined by calculating the present value of the future servicing cash flows from the underlying mortgage loans.

During the six months ended June 30, 2009, mortgage loans with an aggregate cost of $11.9 million had been written down to fair value of $4.7 million. This write down resulted in a loss of $6.3 million and $7.2 million for the three and six months ended June 30, 2009, respectively, that was recorded in net realized capital gains (losses). These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values.

During the six months ended June 30, 2009, real estate with an aggregate cost of $1.0 million had been written down to fair value of $0.7 million. This write down resulted in a loss of $0.3 million for both the three and six months ended June 30, 2009, that was recorded in operating expenses. This is a Level 3 fair value measurement, as the fair value of the real estate is estimated using appraised values.

Fair value option

As a result of our implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010, we elected fair value accounting for certain assets and liabilities of newly consolidated VIEs for which it was not practicable for us to determine the carrying value. The fair value option was elected for commercial mortgage loans reported with other investments and obligations reported with other liabilities in the consolidated statements of financial position. The changes in fair value of these items are reported in net realized capital gains (losses) on the consolidated statements of operations.

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Principal Financial Group, Inc.
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9. Fair Value Measurements (continued)

The fair value and aggregate contractual principal amounts of commercial mortgage loans for which the fair value option has been elected were $130.4 million and $131.5 million, respectively, as of June 30, 2010. The change in fair value of the loans resulted in a $17.2 million and $20.9 million pre-tax gain for the three and six months ended June 30, 2010, respectively, none of which related to instrument-specific credit risk. None of these loans were more than 90 days past due or in nonaccrual status. Interest income on these commercial mortgage loans is included in net investment income on the consolidated statements of operations and is recorded based on the effective interest rates as determined at the closing of the loan. For the three and six months ended June 30, 2010, we recorded $2.6 million and $5.4 million of interest income on these commercial mortgage loans, respectively.

The fair value and aggregate unpaid principal amounts of obligations for which the fair value option has been elected were $119.0 million and $223.5 million, respectively, as of June 30, 2010. The change in fair value of the obligations resulted in an $8.7 million and $5.7 million pre-tax gain, which includes a $10.4 million and $10.8 million pre-tax gain related to instrument-specific credit risk that is estimated based on credit spreads and quality ratings for the three and six months ended June 30, 2010, respectively. Interest expense recorded on these obligations is included in operating expenses on the consolidated statements of operations and was $2.3 million and $4.6 million for the three and six months ended June 30, 2010, respectively.

10. Segment Information

We provide financial products and services through the following segments: U.S. Asset Accumulation, Global Asset Management, International Asset Management and Accumulation and Life and Health Insurance. In addition, there is a Corporate segment. The segments are managed and reported separately because they provide different products and services, have different strategies or have different markets and distribution channels.

The U.S. Asset Accumulation segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals.

The Global Asset Management segment provides asset management services to our asset accumulation business, our life and health insurance operations, the Corporate segment and third-party clients.

The International Asset Management and Accumulation segment consists of Principal International, which has operations in Brazil, Chile, China, Hong Kong Special Administrative Region, India, Indonesia, Malaysia, Mexico, Singapore and Thailand. We focus on countries with

large middle classes, favorable demographics and growing long-term savings, ideally with defined contribution markets. We entered these countries through acquisitions, start-up operations and joint ventures.

The Life and Health insurance segment provides individual life insurance, group health insurance and specialty benefits, which consists of group dental and vision insurance, individual and group disability insurance and group life insurance, throughout the United States.

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

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10. Segment Information (continued)

Management uses segment operating earnings in goal setting, as a basis for determining employee compensation and in evaluating performance on a basis comparable to that used by securities analysts. We determine segment operating earnings by adjusting U.S. GAAP net income for net realized capital gains (losses), as adjusted, and other after-tax adjustments which management believes are not indicative of overall operating trends. Net realized capital gains (losses), as adjusted, are net of income taxes, related changes in the amortization pattern of DPAC and sales inducements, recognition of deferred front-end fee revenues for sales charges on retirement products and services, net realized capital gains and losses distributed, noncontrolling interest capital gains and losses and certain market value adjustments to fee revenues. Net realized capital gains (losses), as adjusted, exclude periodic settlements and accruals on derivative instruments not designated as hedging instruments and exclude certain market value adjustments of embedded derivatives. Segment operating revenues exclude net realized capital gains (losses) (except periodic settlements and accruals on derivatives not designated as hedging instruments), including their impact on recognition of front-end fee revenues and certain market value adjustments to fee revenues and revenue from our terminated commercial mortgage securities issuance operation. Segment operating revenues include operating revenues from real estate properties that qualify for discontinued operations. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, ongoing operations of the business.

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

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

	June 30, 2010	December 31, 2009
	(in millions)	
Assets:		
U.S. Asset Accumulation	**$ 104,475.3**	$ 106,881.9
Global Asset Management	**1,269.2**	1,276.7
International Asset Management and Accumulation	**10,979.0**	10,301.7
Life and Health Insurance	**16,136.7**	15,629.0
Corporate	**3,736.3**	3,670.1
Total consolidated assets	**$ 136,596.5**	$ 137,759.4

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Principal Financial Group, Inc.
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10. Segment Information (continued)

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
		(in millions)		
Operating revenues by segment:				
U.S. Asset Accumulation	**$ 1,021.3**	$ 991.3	**$ 2,034.0**	$ 1,998.8
Global Asset Management	**114.3**	103.3	**228.1**	207.7
International Asset Management and Accumulation	**188.2**	161.7	**369.3**	225.7
Life and Health Insurance	**1,037.1**	1,116.9	**2,095.0**	2,247.9
Corporate	**(39.9)**	(37.4)	**(71.6)**	(83.1)
Total segment operating revenues	**2,321.0**	2,335.8	**4,654.8**	4,597.0
Net realized capital losses (except periodic settlements and accruals on derivatives not designated as hedging instruments), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**(87.4)**	(178.0)	**(157.2)**	(250.5)
Terminated commercial mortgage securities issuance operation				(0.1)
Total revenues per consolidated statements of operations	**$ 2,233.6**	$ 2,157.8	**$ 4,497.6**	$ 4,346.4
Operating earnings (losses) by segment, net of related income taxes:				
U.S. Asset Accumulation	**$ 129.0**	$ 137.4	**$ 286.0**	$ 230.5
Global Asset Management	**12.3**	8.2	**24.3**	15.0
International Asset Management and Accumulation	**35.0**	29.3	**72.9**	46.3
Life and Health Insurance	**54.6**	57.7	**124.4**	129.5
Corporate	**(27.4)**	(32.1)	**(48.5)**	(56.8)
Total segment operating earnings, net of related income taxes	**203.5**	200.5	**459.1**	364.5
Net realized capital losses, as adjusted (1)	**(69.5)**	(50.2)	**(126.5)**	(101.1)
Other after-tax adjustments (2)			**(7.8)**	(0.3)
Net income available to common stockholders per consolidated statements of operations	**$ 134.0**	$ 150.3	**$ 324.8**	$ 263.1

(1) Net realized capital losses, as adjusted, is derived as follows:

	For the three months ended June 30,	For the six months ended June 30,

	2010	2009	2010	2009
			(in millions)	
Net realized capital losses	**$ (66.4)**	$ (155.2)	**$ (111.9)**	$ (218.5)
Periodic settlements and accruals on derivatives not designated as hedging instruments	**(24.6)**	(20.0)	**(49.3)**	(27.7)
Certain market value adjustments to fee revenues				(1.5)
Recognition of front-end fee revenues	**3.6**	(2.8)	**4.0**	(2.8)
Net realized capital losses, net of related revenue adjustments	**(87.4)**	(178.0)	**(157.2)**	(250.5)
Amortization of deferred policy acquisition and sales inducement costs	**(29.8)**	114.4	**(44.6)**	89.6
Capital gains distributed	**(0.3)**	(13.6)	**(2.3)**	(6.9)
Certain market value adjustments of embedded derivatives	**3.6**	2.5	**5.8**	6.5
Noncontrolling interest capital gains	**(0.7)**	(4.5)	**(4.7)**	(5.6)
Income tax effect	**45.1**	29.0	**76.5**	65.8
Net realized capital losses, as adjusted	**$ (69.5)**	$ (50.2)	**$ (126.5)**	$ (101.1)

(2) For the six months ended June 30, 2010, other after-tax adjustments included the negative effect resulting from the tax impact of healthcare reform, which eliminates the tax deductibility of retiree prescription drug expenses related to our employees incurred after 2012.

For the six months ended June 30, 2009, other after-tax adjustments included the negative effect of losses associated with our terminated commercial mortgage securities issuance operation that has been exited but does not qualify for discontinued operations accounting treatment under U.S. GAAP.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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10. Segment Information (continued)

The following table summarizes operating revenues for our products and services:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
U.S. Asset Accumulation:				
Full service accumulation	**$ 332.7**	$ 318.4	**$ 663.0**	$ 622.9
Principal Funds	**125.2**	92.2	**248.6**	210.9
Individual annuities	**255.2**	225.2	**506.3**	466.1
Bank and trust services	**21.8**	20.8	**44.9**	39.1
Eliminations	**(24.2)**	(7.2)	**(49.8)**	(43.8)
Total Accumulation	**710.7**	649.4	**1,413.0**	1,295.2
Investment only	**162.8**	208.1	**338.3**	425.9
Full service payout	**147.8**	133.8	**282.7**	277.7
Total Guaranteed	**310.6**	341.9	**621.0**	703.6
Total U.S. Asset Accumulation	**1,021.3**	991.3	**2,034.0**	1,998.8
Global Asset Management (1)	**114.3**	103.3	**228.1**	207.7
International Asset Management and Accumulation	**188.2**	161.7	**369.3**	225.7
Life and Health Insurance:				
Individual life insurance	**335.4**	339.0	**680.4**	673.9
Health insurance	**350.2**	413.9	**716.4**	843.7
Specialty benefits insurance	**351.9**	364.5	**699.0**	731.3
Eliminations	**(0.4)**	(0.5)	**(0.8)**	(1.0)
Total Life and Health Insurance	**1,037.1**	1,116.9	**2,095.0**	2,247.9
Corporate	**(39.9)**	(37.4)	**(71.6)**	(83.1)
Total operating revenues	**$ 2,321.0**	$ 2,335.8	**$ 4,654.8**	$ 4,597.0
Total operating revenues	**$ 2,321.0**	$ 2,335.8	**$ 4,654.8**	$ 4,597.0
Net realized capital losses (except periodic settlements and accruals on derivatives not designated as hedging instruments), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**(87.4)**	(178.0)	**(157.2)**	(250.5)
Terminated commercial mortgage securities issuance operation				(0.1)
Total revenues per consolidated statements of operations	**$ 2,233.6**	$ 2,157.8	**$ 4,497.6**	$ 4,346.4

(1) Reflects inter-segment revenues of $49.5 million and $47.8 million for the three months ended June 30, 2010 and 2009, respectively, and $99.3 million and $94.9 million for the six months ended June 30, 2010 and 2009, respectively. These revenues are eliminated within the Corporate segment.

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Principal Financial Group, Inc.
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11. Stock-Based Compensation Plans

As of June 30, 2010, we have the 2010 Stock Incentive Plan (formerly known as the 2005 Stock Incentive Plan), the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan (Stock-Based Compensation Plans). As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan.

As of June 30, 2010, the maximum number of new shares of common stock that were available for grant under the 2010 Stock Incentive Plan and the 2005 Directors Stock Plan was 12.0 million.

The compensation cost that was charged against income for stock-based awards granted under the Stock-Based Compensation Plans is as follows:

	For the six months ended June 30,	
	2010	**2009**
	(in millions)	
Compensation cost	**$ 25.4**	$ 26.2
Related income tax benefit	**8.7**	8.6
Capitalized as part of an asset	**1.3**	2.0

Nonqualified Stock Options

Nonqualified stock options were granted to certain employees under the 2010 Stock Incentive Plan. Total options granted were 0.8 million for the six months ended June 30, 2010. The fair value of these options was determined using the Black-Scholes option valuation model assuming a weighted-average expected dividend yield of 2.3 percent, a weighted-average expected volatility of 66.6 percent, a weighted-average risk-free interest rate of 2.8 percent and a weighted-average expected term of 6 years. The weighted-average estimated fair value of stock options granted during the six months ended June 30, 2010, was $11.48 per share.

As of June 30, 2010, there were $9.0 million of total unrecognized compensation costs related to nonvested stock options. The costs are expected to be recognized over a weighted-average service period of approximately 1.7 years.

Performance Share Awards

Performance share awards were granted to certain employees under the 2010 Stock Incentive Plan. Total performance share awards granted were 0.4 million for the six months ended June 30, 2010. The performance share awards granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance objective to be determined at the end of the performance period. The actual number of shares to be awarded at the end of each performance period will range between 0% and 150% of the initial target awards. The fair value of performance share awards is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these performance share awards granted was $22.21 per common share.

As of June 30, 2010, there were $8.2 million of total unrecognized compensation costs related to nonvested performance share awards granted. The costs are expected to be recognized over a weighted-average service period of approximately 1.7 years.

Restricted Stock Units

Restricted stock units were issued to certain employees and agents pursuant to the 2010 Stock Incentive Plan and non-employee directors pursuant to the 2005 Directors Stock Plan. Total restricted stock units granted were 1.2 million for the six months ended June 30, 2010. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these restricted stock units granted was $22.58 per common share.

As of June 30, 2010, there were $37.5 million of total unrecognized compensation costs related to nonvested restricted stock unit awards granted. The costs are expected to be recognized over a weighted-average period of approximately 2.0 years.

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Principal Financial Group, Inc.
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11. Stock-Based Compensation Plans (continued)

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, employees purchased 0.5 million shares for the six months ended June 30, 2010. The weighted-average fair value of the discount on the stock purchased was $3.52 per share.

As of June 30, 2010, a total of 8.0 million of new shares are available to be made issuable by us for this plan.

12. Earnings Per Common Share

The computations of the basic and diluted per share amounts were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions, except per share data)			
Net income	**$ 144.2**	$ 164.0	**$ 347.8**	$ 286.6
Subtract:				
Net income attributable to noncontrolling interest	**1.9**	5.4	**6.5**	7.0
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Net income available to common stockholders	**$ 134.0**	$ 150.3	**$ 324.8**	$ 263.1
Weighted-average shares outstanding				
Basic	**320.1**	289.9	**319.9**	275.1
Dilutive effects:				
Stock options	**1.1**	0.4	**0.9**	
Restricted stock units	**1.4**	1.1	**1.4**	0.7
Performance share awards	**0.3**		**0.3**	
Diluted	**322.9**	291.4	**322.5**	275.8
Net income per common share:				
Basic	**$ 0.42**	$ 0.52	**$ 1.02**	$ 0.96
Diluted	**$ 0.42**	$ 0.52	**$ 1.01**	$ 0.95

The calculation of diluted earnings per share for the three and six months ended June 30, 2010 and 2009, excludes the incremental effect related to certain outstanding stock-based compensation grants due to their anti-dilutive effect.

13. Condensed Consolidating Financial Information

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

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) Principal Life, (iii) Principal Financial Services, Inc. (PFS) and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of June 30, 2010 and December 31, 2009, and for the six months ended June 30, 2010 and 2009.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS, (ii) Principal Life s interest in all direct subsidiaries of Principal Life and (iii) PFS s interest in Principal Life even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent s investment and earnings. All intercompany balances and transactions, including elimination of the parent s investment in subsidiaries, between PFG, Principal Life and PFS and all other subsidiaries have been eliminated, as shown in the column Eliminations and Other. These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

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Principal Financial Group, Inc.
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13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ 10.0	$ 43,019.8	$ 5,619.1	$ (418.8)	$ 48,230.1
Fixed maturities, trading	488.0	389.5	367.7		1,245.2
Equity securities, available-for-sale		169.1	2.2		171.3
Equity securities, trading		0.3	222.5		222.8
Mortgage loans		9,604.4	2,136.2	(448.0)	11,292.6
Real estate		16.2	1,068.4	(1.9)	1,082.7
Policy loans		874.3	20.1		894.4
Investment in unconsolidated entities	9,194.0	3,296.7	4,057.5	(15,899.2)	649.0
Other investments	5.3	1,798.8	722.6	(417.7)	2,109.0
Cash and cash equivalents	618.1	444.3	751.6	13.3	1,827.3
Accrued investment income	1.7	611.7	59.6	(4.4)	668.6
Premiums due and other receivables	136.7	900.2	247.6	(51.9)	1,232.6
Deferred policy acquisition costs		3,182.5	244.2		3,426.7
Property and equipment		406.2	65.5		471.7
Goodwill		96.8	285.0		381.8
Other intangibles		32.8	810.1		842.9
Separate account assets		54,785.9	5,949.1		60,735.0
Other assets	12.6	396.9	927.2	(223.9)	1,112.8
Total assets	$ 10,466.4	$ 120,026.4	$ 23,556.2	$ (17,452.5)	$ 136,596.5
Liabilities					
Contractholder funds	$	$ 39,024.9	$ 79.8	$ (255.3)	$ 38,849.4
Future policy benefits and claims		15,947.0	3,358.7	(36.9)	19,268.8
Other policyholder funds		549.2	20.3		569.5
Short-term debt			126.5		126.5
Long-term debt	1,351.7	99.5	607.1	(485.9)	1,572.4
Income taxes currently payable	(18.2)	(276.3)	14.8	282.2	2.5
Deferred income taxes	(22.8)	(48.4)	280.0	(11.5)	197.3
Separate account liabilities		54,785.9	5,949.1		60,735.0
Other liabilities	226.2	2,882.5	3,779.2	(684.5)	6,203.4
Total liabilities	1,536.9	112,964.3	14,215.5	(1,191.9)	127,524.8
Stockholders equity					
Series A preferred stock					

Series B preferred stock	**0.1**				**0.1**
Common stock	**4.5**	**2.5**		**(2.5)**	**4.5**
Additional paid-in capital	**9,525.8**	**6,125.8**	**8,308.8**	**(14,434.6)**	**9,525.8**
Retained earnings	**4,474.8**	**1,218.4**	**1,192.9**	**(2,411.3)**	**4,474.8**
Accumulated other comprehensive loss	**(351.0)**	**(284.6)**	**(307.7)**	**592.3**	**(351.0)**
Treasury stock, at cost	**(4,724.7)**				**(4,724.7)**
Total stockholders equity attributable to PFG	**8,929.5**	**7,062.1**	**9,194.0**	**(16,256.1)**	**8,929.5**
Noncontrolling interest			**146.7**	**(4.5)**	**142.2**
Total stockholders equity	**8,929.5**	**7,062.1**	**9,340.7**	**(16,260.6)**	**9,071.7**
Total liabilities and stockholders equity	**$ 10,466.4**	**$ 120,026.4**	**$ 23,556.2**	**$ (17,452.5)**	**$ 136,596.5**

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13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2009

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ 124.5	$ 40,928.8	$ 5,635.5	$ (468.2)	$ 46,220.6
Fixed maturities, trading	348.1	461.8	222.5		1,032.4
Equity securities, available-for-sale		211.6	2.4		214.0
Equity securities, trading		0.3	221.2		221.5
Mortgage loans		9,930.7	2,344.5	(429.6)	11,845.6
Real estate		19.4	1,017.4	(2.2)	1,034.6
Policy loans		881.3	21.2		902.5
Investment in unconsolidated entities	8,423.1	3,337.7	3,198.5	(14,331.0)	628.3
Other investments	5.3	1,692.3	621.9	(482.5)	1,837.0
Cash and cash equivalents	304.6	1,249.2	713.0	(26.4)	2,240.4
Accrued investment income	2.0	634.6	61.2	(5.9)	691.9
Premiums due and other receivables	2.0	843.3	220.1		1,065.4
Deferred policy acquisition costs		3,454.8	226.6		3,681.4
Property and equipment		420.9	68.4		489.3
Goodwill		96.8	289.6		386.4
Other intangibles		33.7	818.0		851.7
Separate account assets		57,380.8	5,357.7		62,738.5
Other assets	13.0	632.3	823.3	209.3	1,677.9
Total assets	$ 9,222.6	$ 122,210.3	$ 21,863.0	$ (15,536.5)	$ 137,759.4
Liabilities					
Contractholder funds	$	$ 40,021.7	$ 37.2	$ (257.0)	$ 39,801.9
Future policy benefits and claims		15,954.7	3,317.1	(23.5)	19,248.3
Other policyholder funds		539.1	20.1		559.2
Short-term debt			101.6		101.6
Long-term debt	1,351.8	99.5	644.1	(510.8)	1,584.6
Income taxes currently payable	(14.7)	(260.5)	15.8	262.2	2.8
Deferred income taxes	(27.0)	(544.8)	295.3	396.7	120.2
Separate account liabilities		57,380.8	5,357.7		62,738.5
Other liabilities	19.0	2,670.9	3,524.0	(628.0)	5,585.9
Total liabilities	1,329.1	115,861.4	13,312.9	(760.4)	129,743.0
Stockholders equity					
Series A preferred stock					

Series B preferred stock	0.1				0.1
Common stock	4.5	2.5		(2.5)	4.5
Additional paid-in capital	9,492.9	6,408.9	8,586.5	(14,995.4)	9,492.9
Retained earnings	4,160.7	1,024.3	834.0	(1,858.3)	4,160.7
Accumulated other comprehensive loss	(1,042.0)	(1,086.8)	(997.4)	2,084.2	(1,042.0)
Treasury stock, at cost	(4,722.7)				(4,722.7)
Total stockholders equity attributable to PFG	7,893.5	6,348.9	8,423.1	(14,772.0)	7,893.5
Noncontrolling interest			127.0	(4.1)	122.9
Total stockholders equity	7,893.5	6,348.9	8,550.1	(14,776.1)	8,016.4
Total liabilities and stockholders equity	$ 9,222.6	$ 122,210.3	$ 21,863.0	$ (15,536.5)	$ 137,759.4

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$	$ 1,611.9	$ 135.2	$	$ 1,747.1
Fees and other revenues		713.7	549.7	(141.0)	1,122.4
Net investment income	12.1	1,405.6	301.4	20.9	1,740.0
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	0.7	100.8	(76.4)	(3.3)	21.8
Total other-than-temporary impairment losses on available-for-sale securities		(186.2)	(5.5)		(191.7)
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income		56.8	1.2		58.0
Net impairment losses on available-for-sale securities		(129.4)	(4.3)		(133.7)
Net realized capital gains (losses)	0.7	(28.6)	(80.7)	(3.3)	(111.9)
Total revenues	12.8	3,702.6	905.6	(123.4)	4,497.6
Expenses					
Benefits, claims and settlement expenses		2,379.7	241.6	(9.0)	2,612.3
Dividends to policyholders		111.5			111.5
Operating expenses	59.0	922.4	497.7	(119.4)	1,359.7
Total expenses	59.0	3,413.6	739.3	(128.4)	4,083.5
Income (loss) before income taxes	(46.2)	289.0	166.3	5.0	414.1
Income taxes (benefits)	(17.9)	82.8	1.5	(0.1)	66.3
Equity in the net income (loss) of subsidiaries	369.6	(1.6)	211.4	(579.4)	
Net income	341.3	204.6	376.2	(574.3)	347.8
Net income attributable to noncontrolling interest			6.6	(0.1)	6.5
Net income attributable to PFG	341.3	204.6	369.6	(574.2)	341.3
Preferred stock dividends	16.5				16.5

Net income available to common stockholders	**$ 324.8**	**$ 204.6**	**$ 369.6**	**$ (574.2)**	**$ 324.8**

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2009

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$	$ 1,756.6	$ 131.0	$	$ 1,887.6
Fees and other revenues		640.3	486.6	(138.2)	988.7
Net investment income	0.5	1,517.1	151.3	19.7	1,688.6
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	2.1	(397.8)	465.3	(57.7)	11.9
Total other-than-temporary impairment losses on available-for-sale securities		(345.4)	(2.1)		(347.5)
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income		116.1	1.0		117.1
Net impairment losses on available-for-sale securities		(229.3)	(1.1)		(230.4)
Net realized capital gains (losses)	2.1	(627.1)	464.2	(57.7)	(218.5)
Total revenues	2.6	3,286.9	1,233.1	(176.2)	4,346.4
Expenses					
Benefits, claims and settlement expenses		2,515.4	133.7	(8.2)	2,640.9
Dividends to policyholders		126.4			126.4
Operating expenses	32.0	838.9	491.7	(111.5)	1,251.1
Total expenses	32.0	3,480.7	625.4	(119.7)	4,018.4
Income (loss) before income taxes	(29.4)	(193.8)	607.7	(56.5)	328.0
Income taxes (benefits)	(11.5)	(98.3)	151.2		41.4
Equity in the net income (loss) of subsidiaries	297.5	326.9	(151.9)	(472.5)	
Net income	279.6	231.4	304.6	(529.0)	286.6
Net income attributable to noncontrolling interest			7.1	(0.1)	7.0
Net income attributable to PFG	279.6	231.4	297.5	(528.9)	279.6
Preferred stock dividends	16.5				16.5

Net income available to common stockholders	$ 263.1	$ 231.4	$ 297.5	$ (528.9)	$ 263.1

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (95.0)	$ 1,336.5	$ 355.1	$ (112.3)	$ 1,484.3
Investing activities					
Available-for-sale securities:					
Purchases		(3,611.3)	(519.0)	(23.7)	(4,154.0)
Sales	95.5	888.7	185.7		1,169.9
Maturities	21.1	1,973.7	251.2		2,246.0
Mortgage loans acquired or originated		(412.6)	(161.8)	137.1	(437.3)
Mortgage loans sold or repaid		707.0	202.4	(118.7)	790.7
Real estate acquired		(0.2)	(18.4)		(18.6)
Net purchases of property and equipment		(2.9)	(5.7)		(8.6)
Dividends and returns of capital received from unconsolidated entities	301.3	187.4	301.3	(790.0)	
Net change in other investments		(11.3)	(150.1)	140.3	(21.1)
Net cash provided by (used in) investing activities	417.9	(281.5)	85.6	(655.0)	(433.0)
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(2.0)				(2.0)
Proceeds from financing element derivatives		39.5			39.5
Payments for financing element derivatives		(22.7)			(22.7)
Excess tax benefits from share-based payment arrangements		0.2	0.6		0.8
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt			16.2	(15.1)	1.1
Principal repayments of long-term debt			(6.4)		(6.4)
Net proceeds from (repayments of) short-term borrowings			(4.1)	32.1	28.0
Dividends and capital paid to parent		(301.3)	(488.7)	790.0	

Investment contract deposits		**2,089.7**	**43.3**		**2,133.0**
Investment contract withdrawals		**(3,663.1)**			**(3,663.1)**
Net increase in banking operation deposits			**37.0**		**37.0**
Other		**(2.2)**			**(2.2)**
Net cash used in financing activities	**(9.4)**	**(1,859.9)**	**(402.1)**	**807.0**	**(1,464.4)**
Net increase (decrease) in cash and cash equivalents	**313.5**	**(804.9)**	**38.6**	**39.7**	**(413.1)**
Cash and cash equivalents at beginning of period	**304.6**	**1,249.2**	**713.0**	**(26.4)**	**2,240.4**
Cash and cash equivalents at end of period	**$ 618.1**	**$ 444.3**	**$ 751.6**	**$ 13.3**	**$ 1,827.3**

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2009

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (105.9)	$ 1,520.4	$ 786.3	$ (785.9)	$ 1,414.9
Investing activities					
Available-for-sale securities:					
Purchases		(2,533.8)	(554.1)	119.9	(2,968.0)
Sales		1,386.9	236.8		1,623.7
Maturities		1,917.9	131.7		2,049.6
Mortgage loans acquired or originated		(182.7)	(48.0)	49.6	(181.1)
Mortgage loans sold or repaid		705.8	164.5	(8.1)	862.2
Real estate acquired			(42.1)		(42.1)
Real estate sold			1.3		1.3
Net purchases of property and equipment		(4.6)	(11.9)		(16.5)
Purchases of interests in subsidiaries, net of cash acquired			(45.7)		(45.7)
Dividends received from (contributions to) unconsolidated entities	(496.3)	13.1	148.7	334.5	
Net change in other investments		80.7	6.7	(138.0)	(50.6)
Net cash provided by (used in) investing activities	(496.3)	1,383.3	(12.1)	357.9	1,232.8
Financing activities					
Issuance of common stock	1,154.4				1,154.4
Acquisition of treasury stock	(3.7)				(3.7)
Proceeds from financing element derivatives		77.9			77.9
Payments for financing element derivatives		(43.7)			(43.7)
Excess tax benefits from share-based payment arrangements			0.2		0.2
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt	750.0		38.3	(38.3)	750.0
Principal repayments of long-term debt			(21.7)		(21.7)

Net repayments of short-term borrowings			(342.9)	(2.8)	(345.7)
Capital received from (dividends paid to) parent		(148.7)	483.2	(334.5)	
Investment contract deposits		2,681.1			2,681.1
Investment contract withdrawals		(5,224.4)			(5,224.4)
Net increase in banking operation deposits			68.1		68.1
Other		(3.2)			(3.2)
Net cash provided by (used in) financing activities	1,884.2	(2,661.0)	225.2	(375.6)	(927.2)
Net increase in cash and cash equivalents	1,282.0	242.7	999.4	(803.6)	1,720.5
Cash and cash equivalents at beginning of period	(2.0)	1,598.6	1,192.3	(180.9)	2,608.0
Cash and cash equivalents at end of period	$ 1,280.0	$ 1,841.3	$ 2,191.7	$ (984.5)	$ 4,328.5

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

On June 11, 2008, our shelf registration statement was filed with the SEC and became effective. The shelf registration replaces the shelf registration that had been in effect since June 2004, as it was scheduled to expire in the fourth quarter of 2008. Under our current shelf registration, we have the ability to issue unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration statement.

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) PFS, (iii) Principal Life and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of June 30, 2010 and December 31, 2009, and for the six months ended June 30, 2010 and 2009.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS and (ii) PFS s interest in Principal Life and all other subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent s investment and earnings. All intercompany balances and transactions, including elimination of the parent s investment in subsidiaries, between PFG, PFS and Principal Life and all other subsidiaries have been eliminated, as shown in the column Eliminations and Other. These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ 10.0	$	$ 48,220.1	$	$ 48,230.1
Fixed maturities, trading	488.0		757.2		1,245.2
Equity securities, available-for-sale			171.3		171.3
Equity securities, trading			222.8		222.8
Mortgage loans			11,292.6		11,292.6
Real estate			1,082.7		1,082.7
Policy loans			894.4		894.4
Investment in unconsolidated entities	9,194.0	9,221.0	648.8	(18,414.8)	649.0
Other investments	5.3	47.2	2,056.6	(0.1)	2,109.0
Cash and cash equivalents	618.1	574.8	1,582.9	(948.5)	1,827.3
Accrued investment income	1.7		666.9		668.6
Premiums due and other receivables	136.7		1,094.7	1.2	1,232.6
Deferred policy acquisition costs			3,426.7		3,426.7
Property and equipment			471.7		471.7
Goodwill			381.8		381.8
Other intangibles			842.9		842.9
Separate account assets			60,735.0		60,735.0
Other assets	12.6	9.6	1,098.1	(7.5)	1,112.8
Total assets	$ 10,466.4	$ 9,852.6	$ 135,647.2	$ (19,369.7)	$ 136,596.5
Liabilities					
Contractholder funds	$	$	$ 38,849.4	$	$ 38,849.4
Future policy benefits and claims			19,268.8		19,268.8
Other policyholder funds			569.5		569.5
Short-term debt		75.0	421.3	(369.8)	126.5
Long-term debt	1,351.7		220.7		1,572.4
Income taxes currently payable	(18.2)	(2.5)	9.4	13.8	2.5
Deferred income taxes	(22.8)	(13.4)	247.6	(14.1)	197.3
Separate account liabilities			60,735.0		60,735.0
Other liabilities	226.2	599.5	5,962.3	(584.6)	6,203.4
Total liabilities	1,536.9	658.6	126,284.0	(954.7)	127,524.8
Stockholders equity					

Series A preferred stock					
Series B preferred stock	**0.1**				**0.1**
Common stock	**4.5**		**17.8**	**(17.8)**	**4.5**
Additional paid-in capital	**9,525.8**	**8,308.8**	**7,698.2**	**(16,007.0)**	**9,525.8**
Retained earnings	**4,474.8**	**1,192.9**	**1,813.7**	**(3,006.6)**	**4,474.8**
Accumulated other comprehensive loss	**(351.0)**	**(307.7)**	**(306.7)**	**614.4**	**(351.0)**
Treasury stock, at cost	**(4,724.7)**		**(2.0)**	**2.0**	**(4,724.7)**
Total stockholders equity attributable to PFG	**8,929.5**	**9,194.0**	**9,221.0**	**(18,415.0)**	**8,929.5**
Noncontrolling interest			**142.2**		**142.2**
Total stockholders equity	**8,929.5**	**9,194.0**	**9,363.2**	**(18,415.0)**	**9,071.7**
Total liabilities and stockholders equity	**$ 10,466.4**	**$ 9,852.6**	**$ 135,647.2**	**$ (19,369.7)**	**$ 136,596.5**

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Financial Position
December 31, 2009

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$ 124.5	$	$ 46,096.1	$	$ 46,220.6
Fixed maturities, trading	348.1		684.3		1,032.4
Equity securities, available-for-sale			214.0		214.0
Equity securities, trading			221.5		221.5
Mortgage loans			11,845.6		11,845.6
Real estate			1,034.6		1,034.6
Policy loans			902.5		902.5
Investment in unconsolidated entities	8,423.1	8,468.4	628.1	(16,891.3)	628.3
Other investments	5.3	49.4	1,782.4	(0.1)	1,837.0
Cash and cash equivalents	304.6	534.4	2,256.8	(855.4)	2,240.4
Accrued investment income	2.0		689.9		691.9
Premiums due and other receivables	2.0		1,062.5	0.9	1,065.4
Deferred policy acquisition costs			3,681.4		3,681.4
Property and equipment			489.3		489.3
Goodwill			386.4		386.4
Other intangibles			851.7		851.7
Separate account assets			62,738.5		62,738.5
Other assets	13.0	9.4	1,644.0	11.5	1,677.9
Total assets	$ 9,222.6	$ 9,061.6	$ 137,209.6	$ (17,734.4)	$ 137,759.4
Liabilities					
Contractholder funds	$	$	$ 39,801.9	$	$ 39,801.9
Future policy benefits and claims			19,248.3		19,248.3
Other policyholder funds			559.2		559.2
Short-term debt		75.0	338.7	(312.1)	101.6
Long-term debt	1,351.8		232.8		1,584.6
Income taxes currently payable	(14.7)	(5.4)	9.1	13.8	2.8
Deferred income taxes	(27.0)	(4.2)	149.6	1.8	120.2
Separate account liabilities			62,738.5		62,738.5
Other liabilities	19.0	573.1	5,540.2	(546.4)	5,585.9
Total liabilities	1,329.1	638.5	128,618.3	(842.9)	129,743.0
Stockholders equity					
Series A preferred stock					

Series B preferred stock	0.1				0.1
Common stock	4.5		17.8	(17.8)	4.5
Additional paid-in capital	9,492.9	8,586.5	7,965.8	(16,552.3)	9,492.9
Retained earnings	4,160.7	834.0	1,468.3	(2,302.3)	4,160.7
Accumulated other comprehensive loss	(1,042.0)	(997.4)	(981.5)	1,978.9	(1,042.0)
Treasury stock, at cost	(4,722.7)		(2.0)	2.0	(4,722.7)
Total stockholders equity attributable to PFG	7,893.5	8,423.1	8,468.4	(16,891.5)	7,893.5
Noncontrolling interest			122.9		122.9
Total stockholders equity	7,893.5	8,423.1	8,591.3	(16,891.5)	8,016.4
Total liabilities and stockholders equity	$ 9,222.6	$ 9,061.6	$ 137,209.6	$ (17,734.4)	$ 137,759.4

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$	$	$ 1,747.1	$	$ 1,747.1
Fees and other revenues			1,122.8	(0.4)	1,122.4
Net investment income (loss)	12.1	(1.8)	1,729.4	0.3	1,740.0
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	0.7	(0.1)	21.2		21.8
Total other-than-temporary impairment losses on available-for-sale securities			(191.7)		(191.7)
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income			58.0		58.0
Net impairment losses on available-for-sale securities			(133.7)		(133.7)
Net realized capital gains (losses)	0.7	(0.1)	(112.5)		(111.9)
Total revenues	12.8	(1.9)	4,486.8	(0.1)	4,497.6
Expenses					
Benefits, claims and settlement expenses			2,612.3		2,612.3
Dividends to policyholders			111.5		111.5
Operating expenses	59.0	0.6	1,300.2	(0.1)	1,359.7
Total expenses	59.0	0.6	4,024.0	(0.1)	4,083.5
Income (loss) before income taxes	(46.2)	(2.5)	462.8		414.1
Income taxes (benefits)	(17.9)	2.7	81.5		66.3
Equity in the net income of subsidiaries	369.6	374.8		(744.4)	
Net income	341.3	369.6	381.3	(744.4)	347.8
Net income attributable to noncontrolling interest			6.5		6.5
Net income attributable to PFG	341.3	369.6	374.8	(744.4)	341.3
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 324.8	$ 369.6	$ 374.8	$ (744.4)	$ 324.8

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2009

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Revenues					
Premiums and other considerations	$	$	$ 1,887.6	$	$ 1,887.6
Fees and other revenues		0.1	995.1	(6.5)	988.7
Net investment income	0.5		1,688.0	0.1	1,688.6
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	2.1	(2.5)	12.3		11.9
Total other-than-temporary impairment losses on available-for-sale securities			(347.5)		(347.5)
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income			117.1		117.1
Net impairment losses on available-for-sale securities			(230.4)		(230.4)
Net realized capital gains (losses)	2.1	(2.5)	(218.1)		(218.5)
Total revenues	2.6	(2.4)	4,352.6	(6.4)	4,346.4
Expenses					
Benefits, claims and settlement expenses			2,640.9		2,640.9
Dividends to policyholders			126.4		126.4
Operating expenses	32.0	22.2	1,203.3	(6.4)	1,251.1
Total expenses	32.0	22.2	3,970.6	(6.4)	4,018.4
Income (loss) before income taxes	(29.4)	(24.6)	382.0		328.0
Income taxes (benefits)	(11.5)	(13.6)	66.5		41.4
Equity in the net income of subsidiaries	297.5	308.5		(606.0)	
Net income	279.6	297.5	315.5	(606.0)	286.6
Net income attributable to noncontrolling interest			7.0		7.0
Net income attributable to PFG	279.6	297.5	308.5	(606.0)	279.6
Preferred stock dividends	16.5				16.5
Net income available to common stockholders	$ 263.1	$ 297.5	$ 308.5	$ (606.0)	$ 263.1

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2010

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (95.0)	$ 24.2	$ 1,584.6	$ (29.5)	$ 1,484.3
Investing activities					
Available-for-sale securities:					
Purchases			(4,154.0)		(4,154.0)
Sales	95.5		1,074.4		1,169.9
Maturities	21.1		2,224.9		2,246.0
Mortgage loans acquired or originated			(437.3)		(437.3)
Mortgage loans sold or repaid			790.7		790.7
Real estate acquired			(18.6)		(18.6)
Net purchases of property and equipment			(8.6)		(8.6)
Dividends and returns of capital received from unconsolidated entities	301.3	309.6		(610.9)	
Net change in other investments		7.9	(23.1)	(5.9)	(21.1)
Net cash provided by (used in) investing activities	417.9	317.5	(551.6)	(616.8)	(433.0)
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(2.0)				(2.0)
Proceeds from financing element derivatives			39.5		39.5
Payments for financing element derivatives			(22.7)		(22.7)
Excess tax benefits from share-based payment arrangements			0.8		0.8
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt			1.1		1.1
Principal repayments of long-term debt			(6.4)		(6.4)
Net proceeds from short-term borrowings			85.7	(57.7)	28.0
Dividends and capital paid to parent		(301.3)	(309.6)	610.9	
Investment contract deposits			2,133.0		2,133.0

Investment contract withdrawals			**(3,663.1)**		**(3,663.1)**
Net increase in banking operation deposits			**37.0**		**37.0**
Other			**(2.2)**		**(2.2)**
Net cash used in financing activities	**(9.4)**	**(301.3)**	**(1,706.9)**	**553.2**	**(1,464.4)**
Net increase (decrease) in cash and cash equivalents	**313.5**	**40.4**	**(673.9)**	**(93.1)**	**(413.1)**
Cash and cash equivalents at beginning of period	**304.6**	**534.4**	**2,256.8**	**(855.4)**	**2,240.4**
Cash and cash equivalents at end of period	**$ 618.1**	**$ 574.8**	**$ 1,582.9**	**$ (948.5)**	**$ 1,827.3**

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2010
(Unaudited)

13. Condensed Consolidating Financial Information (continued)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2009

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (105.9)	$ 801.6	$ 1,463.1	$ (743.9)	$ 1,414.9
Investing activities					
Available-for-sale securities:					
Purchases		(50.0)	(2,918.0)		(2,968.0)
Sales			1,623.7		1,623.7
Maturities			2,049.6		2,049.6
Mortgage loans acquired or originated			(181.1)		(181.1)
Mortgage loans sold or repaid			862.2		862.2
Real estate acquired			(42.1)		(42.1)
Real estate sold			1.3		1.3
Net purchases of property and equipment			(16.5)		(16.5)
Purchases of interests in subsidiaries, net of cash acquired			(45.7)		(45.7)
Dividends received from (contributions to) unconsolidated entities	(496.3)	152.3		344.0	
Net change in other investments		20.5	(51.7)	(19.4)	(50.6)
Net cash provided by (used in) investing activities	(496.3)	122.8	1,281.7	324.6	1,232.8
Financing activities					
Issuance of common stock	1,154.4				1,154.4
Acquisition of treasury stock	(3.7)				(3.7)
Proceeds from financing element derivatives			77.9		77.9
Payments for financing element derivatives			(43.7)		(43.7)
Excess tax benefits from share-based payment arrangements			0.2		0.2
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt	750.0				750.0
Principal repayments of long-term debt		(13.7)	(8.0)		(21.7)

Net proceeds from (repayments of) short-term borrowings		(344.4)	20.4	(21.7)	(345.7)
Capital received from (dividends paid to) parent		496.3	(152.3)	(344.0)	
Investment contract deposits			2,681.1		2,681.1
Investment contract withdrawals			(5,224.4)		(5,224.4)
Net increase in banking operation deposits			68.1		68.1
Other			(3.2)		(3.2)
Net cash provided by (used in) financing activities	1,884.2	138.2	(2,583.9)	(365.7)	(927.2)
Net increase in cash and cash equivalents	1,282.0	1,062.6	160.9	(785.0)	1,720.5
Cash and cash equivalents at beginning of period	(2.0)	546.0	2,728.5	(664.5)	2,608.0
Cash and cash equivalents at end of period	$ 1,280.0	$ 1,608.6	$ 2,889.4	$ (1,449.5)	$ 4,328.5

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

The following analysis discusses our financial condition as of June 30, 2010, compared with December 31, 2009, and our consolidated results of operations for the three and six months ended June 30, 2010 and 2009, prepared in conformity with U.S. GAAP. The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2009, filed with the SEC and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

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

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to, the following: (1) adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital; (2) continued difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations; (3) continued volatility or further declines in the equity markets could reduce our assets under management (AUM) and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income; (4) changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period; (5) our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM and net income; (6) our valuation of fixed maturities and equity securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition; (7) the determination of the amount of allowances and impairments taken on our investments requires estimations and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position; (8) gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income; (9) competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability; (10) a downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition; (11) our efforts to reduce the impact of interest rate changes on our profitability and retained earnings may not be effective; (12) if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced; (13) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (14) we may face losses if our actual experience differs significantly from our pricing and reserving assumptions; (15) our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life; (16) the pattern of amortizing our DPAC and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of the asset and the timing of our net income; (17) we may need to fund deficiencies in our Closed Block assets; (18) a pandemic, terrorist attack or other catastrophic event could adversely affect our net income; (19) our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and profitability; (20) we face risks arising from acquisitions of businesses; (21) changes in laws, regulations or accounting standards may reduce our profitability; (22) a computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability; (23) results of litigation and regulatory investigations may affect our financial strength or reduce our profitability; (24) from time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material; (25) fluctuations in foreign currency exchange rates could reduce our profitability; (26) applicable laws and our stockholder rights plan,

certificate of incorporation and by-laws may discourage takeovers and business combinations that our stockholders might consider in their best interests and (27) our financial results may be adversely impacted by global climate changes.

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Overview

We provide financial products and services through the following reportable segments:

- U.S. Asset Accumulation, which consists of our asset accumulation operations that provide retirement and related financial products and services. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the U.S., with a concentration on small and medium-sized businesses. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, non-qualified executive benefit plans and employee stock ownership plan consulting services. We also offer annuities, mutual funds and bank products and services to the employees of our business customers and other individuals.

- Global Asset Management, which consists of our asset management operations conducted through Principal Global Investors and its affiliates. Global Asset Management offers an extensive range of equity, fixed income and real estate investments as well as specialized overlay and advisory services to institutional investors.

- International Asset Management and Accumulation, which consists of Principal International, offers retirement products and services, annuities, mutual funds, institutional asset management and life insurance accumulation products through operations in Brazil, Chile, China, Hong Kong Special Administrative Region, India, Indonesia, Malaysia, Mexico, Singapore and Thailand.

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

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

Healthcare Reform

During the first quarter of 2010, federal legislation was enacted that reformed the healthcare system. Among the many changes, the newly enacted healthcare legislation eliminates the tax deductibility of retiree prescription drug expenses incurred after 2012, up to the Medicare Part D subsidy amount, which had been allowed to encourage employers to offer retiree drug coverage. There was no impact for the three months ended June 30, 2010; however, we recognized a $7.8 million negative impact to net income for the six months ended June 30, 2010, associated with the release of the portion of our deferred tax asset on accrued retiree prescription drug expenses related to our employees that will no longer

be tax-deductible after December 31, 2012.

Transactions Affecting Comparability of Results of Operations

Brasilprev Seguros e Previdencia S.A.

On April 30, 2010, we signed definitive agreements with Banco do Brasil (Banco), including the Shareholders Agreement governing the operations of our pension joint venture, Brasilprev Seguros e Previdencia S.A. (Brasilprev). The agreements result in Brasilprev having, for 23 years, the exclusive right to distribute pension products within the Banco bank network and a reduction in our economic interest to 25%, which resulted in a $72.1 million after-tax net realized capital gain. Brasilprev will continue to be jointly managed and reported as an equity method investment in our International Asset Management and Accumulation segment. Due to the decline in our economic interest, we expect to see a decline in our earnings from this operation in the near term.

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

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

Foreign currency exchange rate fluctuations create variances in our financial statement line items. Our consolidated net income was positively impacted by $19.8 million and negatively impacted by $8.9 million for the three months ended June 30, 2010 and 2009, respectively, and positively impacted by $27.2 million and negatively impacted by $22.1 million for the six months ended June 30, 2010 and 2009, respectively, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 3. Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk.

Stock-Based Compensation Plans

For information related to our Stock-Based Compensation Plans, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 11, Stock-Based Compensation Plans.

Defined Benefit Pension Expense

The 2010 annual pension benefit expense for substantially all of our employees and certain agents is expected to be $110.4 million pre-tax, which is a $47.2 million decrease from the 2009 pre-tax pension expense of $157.6 million. This decrease is primarily due to actual asset returns in 2009 that were greater than expected, resulting in an actuarial gain and higher than expected plan assets as of December 31, 2009. The higher asset value increased the expected return on plan assets in 2010 and the actuarial gain reduced the previous actuarial loss and its amortization in 2010. For additional information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 6, Employee and Agent Benefits. Approximately $27.6 million and $55.2 million of pre-tax pension expense was reflected in the determination of net income for the three and six months ended June 30, 2010, respectively. In addition, approximately $27.6 million of pre-tax pension expense will be reflected in each of the following two quarters of 2010. The expected long-term return on plan assets assumption and the discount rate used to develop the 2010 expense remained at the same 8.0% and 6.0% rates, respectively, used to develop the 2009 expense.

Recent Accounting Pronouncements

For recent accounting changes, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies.

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Results of Operations

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

	For the three months ended June 30,			For the six months ended June 30,		
	2010	2009	Increase (decrease)	2010	2009	Increase (decrease)
			(in millions)			
Revenues:						
Premiums and other considerations	**$ 868.2**	$ 937.7	$ (69.5)	**$ 1,747.1**	$ 1,887.6	$ (140.5)
Fees and other revenues	**554.8**	515.2	39.6	**1,122.4**	988.7	133.7
Net investment income	**877.0**	860.1	16.9	**1,740.0**	1,688.6	51.4
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(11.9)**	(20.8)	8.9	**21.8**	11.9	9.9
Total other-than-temporary impairment losses on available-for-sale securities	**(107.1)**	(200.9)	93.8	**(191.7)**	(347.5)	155.8
Portion of impairment losses on fixed maturities, available-for-sale recognized in other comprehensive income	**52.6**	66.5	(13.9)	**58.0**	117.1	(59.1)
Net impairment losses on available-for-sale securities	**(54.5)**	(134.4)	79.9	**(133.7)**	(230.4)	96.7
Net realized capital losses	**(66.4)**	(155.2)	88.8	**(111.9)**	(218.5)	106.6
Total revenues	**2,233.6**	2,157.8	75.8	**4,497.6**	4,346.4	151.2
Expenses:						
Benefits, claims and settlement expenses	**1,337.0**	1,334.3	2.7	**2,612.3**	2,640.9	(28.6)
Dividends to policyholders	**55.0**	62.9	(7.9)	**111.5**	126.4	(14.9)
Operating expenses	**683.8**	562.7	121.1	**1,359.7**	1,251.1	108.6
Total expenses	**2,075.8**	1,959.9	115.9	**4,083.5**	4,018.4	65.1
Income before income taxes	**157.8**	197.9	(40.1)	**414.1**	328.0	86.1
Income taxes	**13.6**	33.9	(20.3)	**66.3**	41.4	24.9
Net income	**144.2**	164.0	(19.8)	**347.8**	286.6	61.2
Net income attributable to noncontrolling interest	**1.9**	5.4	(3.5)	**6.5**	7.0	(0.5)
Net income attributable to Principal Financial Group, Inc.	**142.3**	158.6	(16.3)	**341.3**	279.6	61.7
Preferred stock dividends	**8.3**	8.3		**16.5**	16.5	
Net income available to common stockholders	**$ 134.0**	$ 150.3	$ (16.3)	**$ 324.8**	$ 263.1	$ 61.7

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Net Income Available to Common Stockholders

Despite higher profitability in the full service accumulation business due to higher average account values, earnings were reduced by higher DPAC amortization expense in our individual annuities and full service accumulation businesses resulting from declining equity market performance during the second quarter of 2010, compared to improving equity market performance during the second quarter of 2009, and lower fees in our investment only business due to an opportunistic early extinguishment of medium-term notes in 2009 with no corresponding activity in 2010. The reduction in net realized capital losses was offset by a corresponding increase in DPAC amortization expense, resulting in an insignificant impact to net income available to common stockholders. Significantly higher net realized capital losses in the second quarter of 2009 within our individual annuities business resulted in lower DPAC amortization expense in the second quarter of 2009.

Total Revenues

Premiums decreased $81.9 million for the Life and Health Insurance segment primarily due to a reduction in average covered members in our health and specialty benefits insurance businesses.

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Fees for the U.S. Asset Accumulation segment increased $27.5 million primarily due to higher fee income stemming from an increase in average account values as a result of improved equity markets during the latter half of 2009. In addition, fees for the Global Asset Management segment increased $7.7 million due to an increase in average AUM as a result of improved market performance during the latter half of 2009.

Net investment income increased primarily due to higher inflation-based investment returns on average invested assets and cash as a result of inflation in Chile during 2010 compared to deflation in 2009. This increase was partially offset by a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, and a decline in reinvestment yields. The decrease in average invested assets was primarily due to our decision to scale back our investment only business. For additional information, see Investments Investment Results.

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain financial instruments and our decision to sell invested assets. Net realized capital losses decreased primarily due to a gain associated with the signing of our Shareholders Agreement with Banco pertaining to our Brasilprev joint venture and lower impairments, net of noncredit losses recognized in other comprehensive income and recoveries from sales, on fixed maturities, available-for-sale. These items were partially offset by an increase in the residential mortgage loan loss provision for our Bank and Trust Services business in the second quarter of 2010, which primarily related to the home equity portfolio. For additional information, see Investments Investment Results.

Total Expenses

Operating expenses increased $140.3 million for the U.S. Asset Accumulation segment primarily due to an increase in DPAC amortization expense resulting from the net realized capital losses recognized within our individual annuities business in 2009, relative to nominal net realized capital gains in 2010. In addition, declining equity markets during the second quarter of 2010, compared to improving equity markets in the second quarter of 2009 contributed to the increase in DPAC amortization expense.

Income Taxes

The effective income tax rates were 9% and 17% for the three months ended June 30, 2010 and 2009, respectively. The effective income tax rate for the three months ended June 30, 2010, was lower than the U.S. statutory rate primarily due to a realized capital gain on the restructuring of our Brasilprev equity method investment that is eligible for the indefinite investment exception and income tax deductions allowed for corporate dividends received. The effective income tax rate for the three months ended June 30, 2009, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the interest exclusion from taxable income and taxes on our share of earnings generated from equity method investments, which are reflected in net investment income. The effective income tax rate decreased to 9% from 17% for the three months ended June 30, 2010 and 2009, respectively, primarily due to a decrease in our estimated annual 2010 effective income tax rate resulting from the second quarter 2010 restructuring of our Brasilprev equity method investment, which is eligible for the indefinite investment exception.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to higher profitability in our full service accumulation business due to higher fees stemming from an increase in average account values, which resulted from improved equity markets during the latter half of 2009. In addition, our International Asset Management and Accumulation segment had higher profitability primarily due to the strengthening of the Latin American currencies against the U.S. dollar; higher investment returns on assets not backing segment insurance products as a result of inflation in Chile during 2010, compared to deflation in 2009, and higher fee revenues driven by higher average AUM as a result of local market performance. The reduction in net realized capital losses was offset by a corresponding increase in DPAC amortization expense, resulting in an insignificant impact to net income available to common stockholders. Significantly higher net realized capital losses in 2009 within our individual annuities business resulted in lower DPAC amortization expense in 2009.

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Total Revenues

Premiums decreased $167.0 million for the Life and Health Insurance segment primarily due to a reduction in average covered members in our health and specialty benefits insurance businesses.

Fees for the U.S. Asset Accumulation segment increased $92.7 million, primarily due to higher fee income stemming from an increase in average account values as a result of improved equity markets during the latter half of 2009. In addition, fees for the Global Asset Management segment increased $17.9 million due to an increase in average AUM as a result of improved market performance during the latter half of 2009.

Net investment income increased primarily due to higher inflation-based investment returns on average invested assets and cash as a result of inflation in Chile during 2010 compared to deflation in 2009. This increase was partially offset by a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, and a decline in reinvestment yields. The decrease in average invested assets was primarily due to our decision to scale back our investment only business. For additional information, see Investments Investment Results.

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain financial instruments and our decision to sell invested assets. Net realized capital losses decreased primarily due to a gain associated with the signing of our Shareholders Agreement with Banco pertaining to our Brasilprev joint venture and lower impairments, net of noncredit losses recognized in other comprehensive income and recoveries from sales, on fixed maturities, available-for-sale. These items were partially offset by an increase in the residential mortgage loan loss provision for our Bank and Trust Services business in 2010, which primarily related to the home equity portfolio. For additional information, see Investments Investment Results.

Total Expenses

Benefits, claims and settlement expenses decreased $68.3 million for the Life and Health Insurance segment primarily due to a decrease in membership in our health and specialty benefits insurance businesses. In addition, benefits, claims and settlement expenses decreased $63.7 million for the U.S. Asset Accumulation segment primarily due to a decrease in our investment only business resulting from lower variable crediting rates and a decline in average account values, which resulted from our decision to scale back this business. Partially offsetting these decreases was a $104.3 million increase in our International Asset Management and Accumulation segment, primarily due to higher inflation-based interest crediting rates to customers in Chile and the strengthening of the Chilean peso against the U.S. dollar.

Operating expenses increased $106.2 million for the U.S. Asset Accumulation segment primarily due to an increase in DPAC amortization resulting from the net realized capital losses recognized within our individual annuities business in 2009 relative to nominal net realized capital gains in 2010. In addition, declining equity markets during 2010, compared to improving equity markets in 2009, contributed to the increase in DPAC amortization expense.

Income Taxes

The effective income tax rates were 16% and 13% for the six months ended June 30, 2010 and 2009, respectively. The effective income tax rate for the six months ended June 30, 2010, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, a realized capital gain on the restructuring of our Brasilprev equity method investment that is eligible for the indefinite investment exception and taxes on our share of earnings generated from equity method investments, which are reflected in net investment income. The effective income tax rate for the six months ended June 30, 2009, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the interest exclusion from taxable income and taxes on our share of earnings generated from equity method investments, which are reflected in net investment income. The effective income tax rate increased to 16% from 13% for the six months ended June 30, 2010 and 2009, respectively, primarily due to an increase in our income before income taxes with no proportionate change in permanent tax differences.

Results of Operations by Segment

For results of operations by segment see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Segment Information.

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U.S. Asset Accumulation Segment

U.S. Asset Accumulation Segment Summary Financial Data

Account values are a key indicator of earnings growth for the segment, as account values are the asset base by which the segment generates much of its fee and spread-based revenues. Net cash flow and market performance are the two main drivers of account value growth. Net cash flow reflects the segment s ability to attract and retain client deposits. Market performance reflects not only the equity market performance, but also the investment performance of fixed income investments supporting our spread business. The percentage growth or decline in earnings of the businesses that make up this segment should closely track the percentage growth or decline in account values. This trend may vary due to changes in business and/or product mix.

The following table presents the U.S. Asset Accumulation account value rollforward for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in billions)			
Account values, beginning of period	**$ 168.8**	$ 141.7	**$ 163.9**	$ 146.1
Net cash flow (1)	**(1.2)**	(1.8)	**(1.1)**	0.2
Credited investment performance	**(7.3)**	11.2	**(2.1)**	5.1
Other	**(0.3)**		**(0.7)**	(0.3)
Account values, end of period	**$ 160.0**	$ 151.1	**$ 160.0**	$ 151.1

(1) Includes net cash flow of $(0.9) billion and $(1.6) billion for the three months ended June 30, 2010 and 2009, respectively, and $(1.6) billion and $(3.1) billion for the six months ended June 30, 2010 and 2009, respectively, resulting from the decision to scale back our investment only business.

The following table presents certain summary financial data relating to the U.S. Asset Accumulation segment for the periods indicated.

	For the three months ended June 30,			For the six months ended June 30,		
	2010	**2009**	**Increase (decrease)**	**2010**	**2009**	**Increase (decrease)**
	(in millions)					
Operating revenues:						
Premiums and other considerations	**$ 72.1**	$ 40.8	$ 31.3	**$ 137.0**	$ 109.8	$ 27.2
Fees and other revenues	**333.1**	305.6	27.5	**674.7**	583.5	91.2
Net investment income	**616.1**	644.9	(28.8)	**1,222.3**	1,305.5	(83.2)
Total operating revenues	**1,021.3**	991.3	30.0	**2,034.0**	1,998.8	35.2
Expenses:						
Benefits, claims and settlement expenses, including dividends to policyholders	**533.1**	536.9	(3.8)	**1,047.1**	1,127.0	(79.9)
Operating expenses	**319.7**	272.2	47.5	**617.1**	584.9	32.2

Total expenses	**852.8**	809.1	43.7	**1,664.2**	1,711.9	(47.7)
Operating earnings before income taxes	**168.5**	182.2	(13.7)	**369.8**	286.9	82.9
Income taxes	**39.5**	44.8	(5.3)	**83.8**	56.4	27.4
Operating earnings	**$ 129.0**	$ 137.4	$ (8.4)	**$ 286.0**	$ 230.5	$ 55.5

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Operating Earnings

Operating earnings decreased $12.5 million in our individual annuities business primarily due to an increase in DPAC amortization expense resulting from declining equity markets during the second quarter of 2010, compared to improving equity markets in the second quarter of 2009. In addition, operating earnings decreased $9.3 million in our investment only business primarily due to an opportunistic early extinguishment of medium-term notes in 2009 with no corresponding activity in 2010. Partially offsetting the decrease in operating earnings was a $5.5 million and $4.4 million increase in our full service accumulation and Principal Funds businesses, respectively, primarily due to higher fees stemming from an increase in average account values, which primarily resulted from improved equity markets during the latter half of 2009.

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Operating Revenues

Premiums increased $18.5 million in our individual annuities business primarily due to an increase in sales of annuities with life contingencies. In addition, premiums increased $12.8 million in our full service payout business primarily due to an increase in sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore tends to vary from period to period.

Fees increased $19.6 million in our full service accumulation business primarily due to higher fee income stemming from an increase in average account values as a result of the improved equity markets during the latter half of 2009. In addition, fees increased $16.1 million in our Principal Funds business primarily due to an increase in management fee income and distribution income stemming from an increase in average account values, which resulted from an improvement in the equity markets during the latter half of 2009. Partially offsetting the increase in fees was a $13.1 million decrease in our investment only business primarily due to fees received in the second quarter of 2009 relating to an opportunistic early extinguishment of medium-term notes with no corresponding activity in 2010.

Net investment income decreased primarily due to a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, and a decline in reinvestment yields. The decrease in average invested assets primarily resulted from our decision to scale back our investment only business.

Total Expenses

Benefits, claims and settlement expenses decreased $30.6 million in our investment only business primarily due to a decrease in cost of interest credited stemming from lower variable crediting rates and a decline in average account values, which primarily resulted from our decision to scale back this business. In addition, benefits, claims and settlement expenses decreased $12.0 million in our full service accumulation business primarily due to a decrease in cost of interest credited stemming from lower variable crediting rates. Partially offsetting the decrease in benefits, claims and settlement expenses was a $27.9 million increase in our individual annuities business primarily due to an increase in change of reserves resulting from higher sales of annuities with life contingencies and, to a lesser extent, an increase in reserve changes for variable annuities guaranteed minimum death benefits, which resulted from a decline in the equity markets during the second quarter of 2010. Further offsetting the decrease was an $11.2 million increase in our full service payout business primarily due to an increase in change of reserves resulting from higher sales of annuities with life contingencies.

Operating expenses in our individual annuities and full service accumulation businesses increased $22.0 million and $19.6 million, respectively, primarily due to an increase in DPAC amortization expense resulting from declining equity markets during the second quarter of 2010, compared to improving equity markets in the second quarter of 2009.

Income Taxes

The effective income tax rates for the segment were 23% and 25% for the three months ended June 30, 2010 and 2009, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Operating Earnings

Operating earnings increased $30.7 million and $12.8 million in our full service accumulation and Principal Funds businesses, respectively, primarily due to higher fees stemming from an increase in average account values, which resulted from improved equity markets during the latter half of 2009. In addition, operating earnings increased $13.0 million in our individual annuities business due to growth in this block of business.

Operating Revenues

Premiums increased $18.7 million in our individual annuities business primarily due to an increase in sales of annuities with life contingencies. In addition, premiums increased $8.5 million in our full service payout business primarily due to an increase in sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore tends to vary from period to period.

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Fees increased $57.9 million in our full service accumulation business primarily due to higher fee income stemming from an increase in average account values as a result of the improved equity markets during the latter half of 2009. In addition, fees increased $32.0 million in our Principal Funds business primarily due to an increase in management fee income and distribution income stemming from an increase in average account values, which primarily resulted from improved equity markets during the latter half of 2009.

Net investment income decreased primarily due to a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, and a decline in reinvestment yields. The decrease in average invested assets primarily resulted from our decision to scale back our investment only business.

Total Expenses

Benefits, claims and settlement expenses decreased $72.7 million in our investment only business primarily due to a decrease in cost of interest credited stemming from lower variable crediting rates and a decline in average account values, which primarily resulted from our decision to scale back this business. In addition, benefits, claims and settlement expenses decreased $27.1 million in our full service accumulation business primarily due to a decrease in cost of interest credited stemming from lower variable crediting rates. Partially offsetting the decrease in benefits, claims and settlement expenses was a $17.1 million increase in our individual annuities business primarily due to an increase in change of reserves resulting from higher sales of annuities with life contingencies and an increase in benefit payments stemming from growth in this block of business.

Operating expenses in our full service accumulation business increased $23.8 million primarily due to an increase in DPAC amortization resulting from declining equity markets during 2010, compared to improving equity markets in 2009. In addition, operating expense increased $10.0 million in our Principal Funds business primarily due to higher commission expense and fees paid to advisors resulting from an increase in average account values.

Income Taxes

The effective income tax rates for the segment were 23% and 20% for the six months ended June 30, 2010 and 2009, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income. The effective tax rate increased to 23% from 20% for the six months ended June 30, 2010 and 2009, respectively, primarily due to an increase in our pre-tax income with no proportionate change in permanent tax differences.

Global Asset Management Segment

Global Asset Management Segment Summary Financial Data

AUM is a key indicator of earnings growth for our Global Asset Management segment, as AUM is the base by which we generate revenues. Net cash flow and market performance are the two main drivers of AUM growth. Net cash flow reflects our ability to attract and retain client deposits. Market performance reflects equity, fixed income and real estate market performance. The percentage growth or decline in earnings of the segment will generally track with the percentage growth or decline in AUM. This trend may vary due to changes in business and/or product mix.

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The following table provides the AUM rollforward for assets managed by Global Asset Management for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in billions)			
AUM, beginning of period	**$ 211.5**	$ 180.5	**$ 205.3**	$ 190.0
Net cash flow (1)	**(2.8)**	(4.2)	**(4.7)**	(3.2)
Investment performance	**(4.5)**	14.3	**2.4**	8.6
Operations disposed (2)				(3.8)
Other	**(2.1)**	0.3	**(0.9)**	(0.7)
AUM, end of period	**$ 202.1**	$ 190.9	**$ 202.1**	$ 190.9

(1) Includes net cash flow of $(0.9) billion and $(1.6) billion for the three months ended June 30, 2010 and 2009, respectively, and $(1.6) billion and $(3.1) billion for the six months ended June 30, 2010 and 2009, respectively, resulting from the U.S. Asset Accumulation segment s decision to scale back its investment only business.

(2) Includes disposition of certain asset management contracts within Post Advisory Group, LLC.

The following table presents certain summary financial data relating to the Global Asset Management segment for the periods indicated.

	For the three months ended June 30,			For the six months ended June 30,		
	2010	2009	Increase (decrease)	2010	2009	Increase (decrease)
	(in millions)					
Operating revenues:						
Fees and other revenues	**$ 110.9**	$ 103.2	$ 7.7	**$ 221.2**	$ 203.8	$ 17.4
Net investment income	**3.4**	0.1	3.3	**6.9**	3.9	3.0
Total operating revenues	**114.3**	103.3	11.0	**228.1**	207.7	20.4
Expenses:						
Total expenses	**93.3**	89.8	3.5	**187.2**	183.2	4.0
Operating earnings before income taxes and noncontrolling interest	**21.0**	13.5	7.5	**40.9**	24.5	16.4
Income taxes	**7.5**	4.4	3.1	**14.9**	8.1	6.8
Operating earnings attributable to noncontrolling interest	**1.2**	0.9	0.3	**1.7**	1.4	0.3
Operating earnings	**$ 12.3**	$ 8.2	$ 4.1	**$ 24.3**	$ 15.0	$ 9.3

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Operating Earnings

Operating earnings increased primarily due to higher fee revenues driven by an increase in average AUM as a result of improved market performance during the latter half of 2009.

Operating Revenues

Fees increased primarily due to an increase in average AUM as a result of improved market performance during the latter half of 2009.

Net investment income increased primarily due to losses in our equity method investment in 2009 with no corresponding losses in 2010.

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Total Expenses

Total expenses increased due to higher staff related costs resulting from higher compensation expense, which was partially offset by lower intangible amortization expense as certain intangibles were fully amortized as of December 31, 2009.

Income Taxes

The effective income tax rates for the segment were 36% and 33% for the three months ended June 30, 2010 and 2009, respectively. The effective income tax rate was higher than the U.S. statutory rate for the three months ended June 30, 2010, primarily due to the impact of recently enacted healthcare legislation limiting the deductibility of employee remuneration and state income tax expense. These increases are partially offset by the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest. The effective income tax rate for the three months ended June 30, 2009, was lower than the U.S. statutory rate, primarily due to the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest. The effective income tax rate increased to 36% from 33% for the three months ended June 30, 2010 and 2009, respectively, primarily due to the impact of recently enacted healthcare legislation limiting the deductibility of employee remuneration and eliminating deductibility of retiree prescription drug expenses related to our employees, up to the Medicare Part D subsidy amount, and an increase in state income tax expense.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Operating Earnings

Operating earnings increased primarily due to higher fee revenues driven by an increase in average AUM as a result of improved market performance during the latter half of 2009.

Operating Revenues

Fees increased primarily due to an increase in average AUM as a result of improved market performance during the latter half of 2009.

Net investment income increased primarily due to losses in our equity method investment in 2009 with no corresponding activity in 2010.

Total Expenses

Total expenses increased primarily due to higher staff related costs resulting from higher compensation expense, which was partially offset by lower intangible amortization expense as certain intangibles were fully amortized as of December 31, 2009.

Income Taxes

The effective income tax rates for the segment were 36% and 33% for the six months ended June 30, 2010 and 2009, respectively. The effective income tax rate for the six months ended June 30, 2010, was higher than the U.S. statutory rate, primarily due to state income tax expense. The effective income tax rate for the six months ended June 30 2009, was lower than the U.S. statutory rate, primarily due to the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest. The effective income tax rate increased to 36% from 33% for the six months ended June 30, 2010 and 2009, respectively, primarily due to the impact of recently enacted healthcare legislation limiting the deductibility of employee remuneration and an increase in state income tax expense.

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International Asset Management and Accumulation Segment

International Asset Management and Accumulation Segment Summary Financial Data

AUM is a key indicator of earnings growth for the segment, as AUM is the base by which we can generate local currency profits. Net cash flow and market performance are the two main drivers of local currency AUM growth. Net cash flow reflects our ability to attract and retain client deposits. Market performance reflects the investment returns on our underlying AUM. The percentage growth or decline in the earnings of our International Asset Management and Accumulation segment will generally track with the percentage growth or decline in AUM. This trend may vary due to changes in business and/or product mix. Our financial results are also impacted by fluctuations of foreign currency to U.S. dollar exchange rates for the countries in which we have business. AUM of our foreign subsidiaries is translated into U.S. dollar equivalents at the end of the reporting period using the spot foreign exchange rates. Revenues and expenses for our foreign subsidiaries are translated into U.S. dollar equivalents at the average foreign exchange rate for the reporting period.

The following table presents the International Asset Management and Accumulation AUM rollforward for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in billions)			
AUM, beginning of period	**$ 35.7**	$ 23.5	**$ 34.6**	$ 23.1
Net cash flow	**1.5**	1.2	**1.9**	1.7
Investment performance	**0.8**	1.3	**1.6**	1.7
Effect of exchange rates	**(0.6)**	2.8	**(0.6)**	2.4
Other	**0.7**	(0.1)	**0.6**	(0.2)
AUM, end of period	**$ 38.1**	$ 28.7	**$ 38.1**	$ 28.7

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

	For the three months ended June 30,			For the six months ended June 30,		
	2010	**2009**	**Increase (decrease)**	**2010**	**2009**	**Increase (decrease)**
			(in millions)			
Operating revenues:						
Premiums and other considerations	**$ 56.0**	$ 75.0	$ (19.0)	**$ 115.1**	$ 116.2	$ (1.1)
Fees and other revenues	**35.8**	28.4	7.4	**68.5**	52.5	16.0
Net investment income	**96.4**	58.3	38.1	**185.7**	57.0	128.7
Total operating revenues	**188.2**	161.7	26.5	**369.3**	225.7	143.6
Expenses:						
Benefits, claims and settlement expenses	**120.4**	104.7	15.7	**230.8**	126.4	104.4
Operating expenses	**33.6**	27.6	6.0	**65.7**	49.8	15.9
Total expenses	**154.0**	132.3	21.7	**296.5**	176.2	120.3
Operating earnings before income taxes and noncontrolling interest	**34.2**	29.4	4.8	**72.8**	49.5	23.3

Income taxes (benefits)	**(0.8)**	0.1	(0.9)	**(0.3)**	3.2	(3.5)	
Operating earnings attributable to noncontrolling interest				**0.2**		0.2	
Operating earnings	**$ 35.0**	$ 29.3	$ 5.7	**$ 72.9**	$ 46.3	$ 26.6	

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Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Operating Earnings

Operating earnings increased primarily due to the strengthening of the Latin American currencies against the U.S. dollar; higher fee revenues driven by higher average AUM as a result of local market performance and higher investment returns on assets not backing segment insurance products as a result of inflation in Chile during 2010, compared to deflation in 2009. These increases were partially offset by decreased earnings in our equity method investment in Brazil.

Operating Revenues

Premiums in Chile decreased $19.2 million primarily due to lower sales of single premium annuities with life contingencies, which was partially offset by the strengthening of the Chilean peso against the U.S. dollar.

Fees and other revenues in Mexico and Chile collectively increased $5.6 million primarily due to higher investment management fees driven by higher average AUM as a result of local market performance and the strengthening of the Latin American currencies against the U.S. dollar. In addition, fees and other revenues in Hong Kong increased $1.3 million primarily due to higher investment management fees driven by higher average AUM as a result of market performance.

Net investment income in Chile increased $40.1 million primarily due to higher inflation-based investment returns on average invested assets and cash as a result of inflation in 2010 compared to deflation in 2009 and the strengthening of the Chilean peso against the U.S. dollar.

Total Expenses

Benefits, claims and settlement expenses in Chile increased $17.9 million primarily due to higher inflation-based interest crediting rates to customers and the strengthening of the Chilean peso against the U.S. dollar, which was partially offset by a lower change in reserve expense associated with decreased sales of single premium annuities with life contingencies.

Operating expenses increased primarily due to higher compensation expenses, higher present value of future profits and DPAC amortization resulting from net unlocking and true-up adjustments in Mexico and the strengthening of the Latin American currencies against the U.S. dollar.

Income Taxes

The effective income tax rates for this segment were (2)% and 0% for the three months ended June 30, 2010 and 2009, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the income statement presentation of equity method investments. Specifically, our share of earnings generated from equity method investments, net of foreign taxes incurred, are reported within net investment income whereas any residual U.S. tax expense or benefit related to the equity method investment is reported in income taxes. Lower tax rates of foreign jurisdictions also contributed to the lower effective tax rate.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Operating Earnings

Operating earnings increased primarily due to the strengthening of the Latin American currencies against the U.S. dollar; higher investment returns on assets not backing segment insurance products as a result of inflation in Chile during 2010, compared to deflation in 2009, and higher fee revenues driven by higher average AUM as a result of local market performance.

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Operating Revenues

Fees and other revenues in Mexico and Chile collectively increased $11.2 million primarily due to higher investment management fees driven by higher average AUM as a result of local market performance and the strengthening of the Latin American currencies against the U.S. dollar. In addition, fees and other revenues in Hong Kong increased $3.1 million primarily due to higher investment management fees driven by higher average AUM as a result of market performance.

Net investment income in Chile increased $116.0 million primarily due to higher inflation-based investment returns on average invested assets and cash as a result of inflation in 2010 compared to deflation in 2009 and the strengthening of the Chilean peso against the U.S. dollar.

Total Expenses

Benefits, claims and settlement expenses in Chile increased $102.7 million primarily due to higher inflation-based interest crediting rates to customers and the strengthening of the Chilean peso against the U.S. dollar.

Operating expenses increased primarily due to higher present value of future profits and DPAC amortization resulting from net unlocking and true-up adjustments in Mexico, higher compensation costs and the strengthening of the Latin American currencies against the U.S. dollar.

Income Taxes

The effective income tax rates for this segment were 0% and 6% for the six months ended June 30, 2010 and 2009, respectively. The effective income tax rates were lower than the U.S. statutory rate, primarily due to the income statement presentation of equity method investments. Specifically, our share of earnings generated from equity method investments, net of foreign taxes incurred, are reported within net investment income whereas any residual U.S. tax expense or benefit related to the equity method investment is reported in income taxes. Lower tax rates of foreign jurisdictions also contributed to the lower effective tax rate.

Life and Health Insurance Segment

Individual Life Insurance Trends

Our life insurance premiums are influenced by both economic and industry trends. In addition, we continue to shift our marketing emphasis to universal life insurance products from traditional life insurance products, which include participating whole life, adjustable life products and

non-participating term life insurance products. Due to this shift in marketing emphasis, premiums related to our traditional life insurance products have declined, while fee revenues from our universal and variable universal life insurance products have grown on a year-to-date basis.

The following table provides a summary of our individual universal and variable universal life insurance fee revenues and our individual traditional life insurance premiums for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Universal and variable universal life insurance fee revenue	**$ 87.7**	$ 87.7	**$ 184.2**	$ 168.1
Traditional life insurance premiums	**132.3**	140.2	**262.3**	280.6

Health Insurance Trends

We have experienced lower premium revenue as increases in premium per member have been more than offset by a decrease in average covered medical members.

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Our health insurance premium and fees were as follows for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Premium and fees:				
Group medical insurance	**$ 317.4**	$ 376.0	**$ 647.8**	$ 764.8
Fee-for-service	**27.1**	32.6	**57.2**	67.2

Specialty Benefits Insurance Trends

Premium and fees for our specialty benefits group products decreased due to lapses outpacing sales, as well as the economic impact on employment levels of our existing employer customers. Individual disability, however, was up slightly due to strong sales and stable lapses.

The following table provides a summary of our specialty benefits insurance premium and fees for the periods indicated.

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Premium and fees:				
Group dental and vision insurance	**$ 128.2**	$ 135.4	**$ 256.0**	$ 272.1
Group life insurance	**79.4**	84.5	**158.6**	168.0
Group disability insurance	**66.9**	72.4	**132.0**	146.7
Individual disability insurance	**48.4**	44.9	**95.9**	89.3

Life and Health Insurance Segment Summary Financial Data

There are several key indicators for earnings growth in our Life and Health Insurance segment. The ability of our distribution channels to generate new sales and retain existing business drives growth in our block of business, premium revenue and fee revenues. Our earnings growth also depends on our ability to price our products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring and administering those products. Factors impacting pricing decisions include competitive conditions, persistency, our ability to assess and manage trends in mortality and morbidity experience and our ability to manage operating expenses.

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

	For the three months ended June 30,			For the six months ended June 30,		
	2010	2009	Increase (decrease)	2010	2009	Increase (decrease)
	(in millions)					
Operating revenues:						
Premiums and other considerations	**$ 738.2**	$ 820.1	$ (81.9)	**$ 1,491.2**	$ 1,658.2	$ (167.0)
Fees and other revenues	**125.7**	132.0	(6.3)	**263.0**	259.3	3.7
Net investment income	**173.2**	164.8	8.4	**340.8**	330.4	10.4
Total operating revenues	**1,037.1**	1,116.9	(79.8)	**2,095.0**	2,247.9	(152.9)
Expenses:						
Benefits, claims and settlement expenses	**692.3**	716.6	(24.3)	**1,346.6**	1,416.4	(69.8)
Dividends to policyholders	**54.6**	62.2	(7.6)	**110.7**	124.6	(13.9)
Operating expenses	**209.4**	252.5	(43.1)	**452.8**	514.0	(61.2)
Total expenses	**956.3**	1,031.3	(75.0)	**1,910.1**	2,055.0	(144.9)
Operating earnings before income taxes	**80.8**	85.6	(4.8)	**184.9**	192.9	(8.0)
Income taxes	**26.2**	27.9	(1.7)	**60.5**	63.4	(2.9)
Operating earnings	**$ 54.6**	$ 57.7	$ (3.1)	**$ 124.4**	$ 129.5	$ (5.1)

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Operating Earnings

Operating earnings in our individual life insurance business decreased $2.3 million as growth in the block of business was offset by the negative impact from the equity market decline as well as higher gross claims. While a substantial amount of the higher gross claims are offset by the benefit of reinsurance, under U.S. GAAP we defer much of the benefit of reinsurance, which causes an increase in reported benefits expense and lower DPAC amortization expense. In addition, operating earnings in our health insurance business decreased $1.1 million primarily due to a decrease in average covered medical members and due to an increase in reserves related to individual contracts converted from group medical plans, which was partially offset by favorable prior period claim development in our group medical products.

Operating Revenues

Premiums decreased $58.8 million in our health insurance business as increases in premium per member were more than offset by a reduction in average covered medical members due to lapses and declining employment levels of our existing customers. Premiums decreased $13.4 million in our specialty benefits insurance business as growth in the individual disability business was more than offset by a decline in our group products premiums driven by lapses outpacing sales and a decline in employment levels of our existing employer customers.

Fees and other revenues decreased $5.0 million in our health insurance business, as increases in fees per member were more than offset by a decrease in average fee-for-service medical members.

Net investment income increased due to an increase in average invested assets.

Total Expenses

Benefits, claims and settlement expenses decreased $57.8 million in our health insurance business due to a decrease in average covered medical members. In addition, health insurance reserves decreased due to favorable prior period claim development in our group medical products, which were offset by an increase in reserves related to individual contracts converted from group medical plans. Benefits, claims and settlement expenses decreased $9.6 million in our specialty benefits insurance business due to a decrease in membership and a stable loss ratio. Partially offsetting the decreases in benefits, claims and settlement expenses was a $43.1 million increase in our individual life insurance business as a result of higher gross claims. While a substantial amount of the higher gross claims are offset by the benefit of reinsurance, under U.S. GAAP we defer much of the benefit of reinsurance, which causes an increase in reported benefits.

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Operating expenses decreased $35.2 million in our individual life insurance business primarily due to a decrease in DPAC amortization associated with higher gross claims.

Income Taxes

The effective income tax rates for this segment were 32% and 33% for the three months ended June 30, 2010 and 2009, respectively. The effective income tax rates were lower than the U.S. statutory rate as a result of the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Operating Earnings

Operating earnings in our health insurance business decreased $7.3 million primarily due to a decrease in average covered medical members and due to an increase in reserves related to individual contracts converted from group medical plans, which was partially offset by favorable prior period claim development in our group medical products. In addition, operating earnings in our specialty benefits insurance business decreased $3.2 million due to an increase in claims and adverse impacts of the economic environment on premium growth, offset by a decrease in expenses. Partially offsetting the decreases in operating earnings was a $5.4 million increase in our individual life insurance business due to Closed Block experience offset by the impact of the equity market decline and higher gross claims. While a substantial amount of the higher gross claims are offset by the benefit of reinsurance, under U.S. GAAP we defer much of the benefit of reinsurance, which causes an increase in reported benefits expense and lower DPAC amortization expense.

Operating Revenues

Premiums decreased $117.4 million in our health insurance business as increases in premium per member were more than offset by a reduction in average covered medical members due to lapses and declining employment levels of our existing customers. Premiums decreased $31.9 million in our specialty benefits insurance business as growth in the individual disability business was more than offset by a decline in our group products premiums driven by lapses outpacing sales and a decline in employment levels of our existing employer customers.

Fees and other revenues increased $14.3 million in our individual life insurance business primarily due to growth in the universal life and variable universal life insurance lines of business. Fees and other revenues decreased $9.1 million in our health insurance business, as increases in fees per member were more than offset by a decrease in average fee-for-service medical members. Fees and other revenues decreased $1.7 million in our specialty benefits insurance business due to an increase in lapses of our group universal life insurance line of business.

Net investment income increased due to an increase in average invested assets.

Total Expenses

Benefits, claims and settlement expenses decreased $96.8 million in our health insurance business due to a decrease in average covered medical members. In addition, health insurance reserves decreased due to favorable prior period claim development in our group medical products, which were offset by an increase in reserves related to individual contracts converted from group medical plans. Benefits, claims and settlement expenses decreased $15.0 million in our specialty benefits insurance business due to a decline in membership. Partially offsetting the decreases in benefits, claims and settlement expenses was a $42.0 million increase in our individual life insurance business as a result of higher gross claims. While a substantial amount of the higher gross claims are offset by the benefit of reinsurance, under U.S. GAAP we defer much of the benefit of reinsurance, which causes an increase in reported benefits.

Operating expenses decreased $29.5 million in our individual life insurance business primarily due to a decrease in DPAC amortization associated with higher gross claims. Operating expenses decreased $19.4 million and $12.5 million in our health and specialty benefits insurance businesses, respectively, primarily due to actively managing expenses to align with a decline in membership and lower employee defined benefit pension and other postretirement benefit costs.

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Income Taxes

The effective income tax rate for this segment was 33% for both the six months ended June 30, 2010 and 2009. The effective income tax rate was lower than the U.S. statutory rate as a result of the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Corporate Segment

Corporate Segment Summary Financial Data

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

	For the three months ended June 30,			For the six months ended June 30,		
	2010	2009	Increase (decrease)	2010	2009	Increase (decrease)
			(in millions)			
Operating revenues:						
Total operating revenues	**$ (39.9)**	$ (37.4)	$ (2.5)	**$ (71.6)**	$ (83.1)	$ 11.5
Expenses:						
Total expenses	**(7.1)**	0.6	(7.7)	**(15.6)**	(19.1)	3.5
Operating losses before income taxes, preferred stock dividends and noncontrolling interest	**(32.8)**	(38.0)	5.2	**(56.0)**	(64.0)	8.0
Income tax benefits	**(13.7)**	(14.2)	0.5	**(23.9)**	(23.7)	(0.2)
Preferred stock dividends	**8.3**	8.3		**16.5**	16.5	
Operating losses attributable to noncontrolling interest				**(0.1)**		(0.1)
Operating losses	**$ (27.4)**	$ (32.1)	$ 4.7	**$ (48.5)**	$ (56.8)	$ 8.3

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Operating Losses

Operating losses decreased due to a decline in the net amounts credited to employee accounts in a nonqualified defined contribution pension plan and a change in income tax reserves established for Internal Revenue Service (IRS) tax matters.

Operating Revenues

Operating revenues decreased primarily due to an increase in inter-segment eliminations included in this segment, which was offset by a corresponding change in total expenses. This decrease was partially offset by an increase in earnings on higher average invested assets for the segment, representing capital that has not been allocated to any other segment.

Total Expenses

Total expenses decreased primarily due to an increase in inter-segment eliminations included in this segment, which was offset by a corresponding change in operating revenues. In addition, total expenses decreased due to a decline in net amounts credited to employee accounts in a nonqualified defined contribution pension plan.

Income Taxes

Income tax benefits decreased due to a decrease in operating losses before income taxes mostly offset by a change in income tax reserves established for IRS tax matters.

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Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Operating Losses

Operating losses decreased primarily due to earnings on higher average invested assets for the segment, representing capital that has not been allocated to any other segment.

Operating Revenues

Operating revenues increased primarily due to an increase in earnings on higher average invested assets for the segment, representing capital that has not been allocated to any other segment.

Total Expenses

Total expenses increased due to higher interest expense on corporate debt, which resulted from a larger long-term debt balance as well as a higher interest rate. These increases in total expenses were partially offset by a decline in net amounts credited to employee accounts in a nonqualified defined contribution pension plan.

Income Taxes

Income tax benefits increased as a change in income tax reserves established for IRS tax matters more than offset a decrease in operating losses before income taxes.

Liquidity and Capital Resources

Liquidity and capital resources represent the overall strength of a company and its ability to generate strong cash flows, borrow funds at a competitive rate and to raise new capital to meet operating and growth needs. Our legal entity structure has an impact on our ability to meet cash flow needs as an organization. Following is a simplified organizational structure.

Our liquidity requirements have been and will continue to be met by funds from consolidated operations as well as the issuance of commercial paper, common stock, debt or other capital securities and borrowings from credit facilities. We believe that cash flows from these sources are sufficient to satisfy the current liquidity requirements of our operations, including reasonably foreseeable contingencies.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed to be adequate to meet anticipated short-term and long-term payment obligations. We will continue our prudent capital management practice of regularly exploring options available to us to maximize capital flexibility, including accessing the capital markets and careful attention to and management of expenses.

Although, as of June 30, 2010, approximately $13.4 billion, or 98%, of our institutional GICs and funding agreements cannot be redeemed by contractholders prior to maturity and although our life insurance and annuity liabilities contain provisions limiting early surrenders, given market conditions, we maintained a historically high position of cash and cash equivalent holdings through much of 2009. As market conditions improve, we will continue to reduce our cash and cash equivalent holdings. Our liquidity is also supported by a portfolio of government-backed securities, of which we held $4.0 billion as of June 30, 2010, that may be utilized to bolster our liquidity position, as collateral for secured borrowing transactions with various third parties or by disposing of the securities in the open market, if needed.

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As of June 30, 2010, we had credit facilities with various financial institutions in an aggregate amount of $705.6 million. As of June 30, 2010 and December 31, 2009, we had $126.5 million and $101.6 million, respectively, of outstanding borrowings related to our credit facilities, with $25.8 million of assets pledged as support as of June 30, 2010. None of these credit arrangements, other than our commercial paper back-stop facility, are committed facilities. Due to the financial strength and the strong relationships we have with these providers, as well as the small size of these facilities, we are comfortable that there is a very low risk that the financial institutions would not be able to fund these facilities. Our credit facilities include a $579.0 million commercial paper program, of which $75.0 million was outstanding as of June 30, 2010. Our commercial paper program has a back-stop facility to provide 100% support for our commercial paper program, of which there were no outstanding balances as of June 30, 2010. The back-stop facility is a five year facility that matures in June 2012. The facility is supported by fourteen banks, most if not all of which have other relationships with us. We have no reason to believe that our current providers would be unable or unwilling to fund the facility if necessary.

The Holding Companies: Principal Financial Group, Inc. and Principal Financial Services, Inc. The principal sources of funds available to our parent holding company, PFG, to meet its obligations, including the payments of dividends on common stock, debt service and the repurchase of stock, are dividends from subsidiaries as well as its ability to borrow funds at competitive rates and raise capital to meet operating and growth needs. Dividends from Principal Life, our primary subsidiary, are limited by Iowa law. Under Iowa laws, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa (the Commissioner) to pay stockholder dividends or make any other distribution if such distributions would exceed certain statutory limitations. Iowa law gives the Commissioner discretion to disapprove requests for distributions in excess of these limits. In general, the current statutory limitations are the greater of (i) 10% of Principal Life s statutory policyholder surplus as of the previous year-end or (ii) the statutory net gain from operations from the previous calendar year. Based on these limitations, Principal Life could distribute approximately $608.7 million in 2010. No dividends were paid as of June 30, 2010; however, on June 21, 2010, Principal Life distributed paid-in and contributed surplus in the amount of $300.0 million to its parent company.

Operations. Our primary consolidated cash flow sources are premiums from life and health insurance products, pension and annuity deposits, asset management fee revenues, administrative services fee revenues, income from investments and proceeds from the sales or maturity of investments. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payment of dividends to policyholders, payments in connection with investments acquired, payments made to acquire subsidiaries, payments relating to policy and contract surrenders, withdrawals, policy loans, interest expense and repayment of short-term debt and long-term debt. Our investment strategies are generally intended to provide adequate funds to pay benefits without forced sales of investments. For a discussion of our investment objectives, strategies and a discussion of duration matching, see Investments as well as Item 3. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk.

Cash Flows. Activity, as reported in our consolidated statements of cash flows, provides relevant information regarding our sources and uses of cash.

Net cash provided by operating activities was $1,484.3 million and $1,414.9 million for the six months ended June 30, 2010, and 2009, respectively. As an insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed policy acquisition costs, benefits paid, redemptions and operating expenses. These positive cash flows are then invested to support the obligations of our insurance and investment products and required capital supporting these products. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. The increase in cash provided by operating activities in 2010 compared to 2009 was primarily due to fluctuations in receivables and payables associated with the timing of settlement as well as an increase in fees and other revenue. This increase was partially offset by an increase in cash paid for benefits, claims and settlement expenses as well as a decrease in cash received from premiums and other considerations.

Net cash used in investing activities was $433.0 million for the six months ended June 30, 2010, compared to net cash provided by investing activities of $1,232.8 million for the six months June 30, 2009. The increase in cash used in investing activities in 2010 compared to 2009 was primarily the result of an increase in net purchases of investments in 2010.

Net cash used in financing activities was $1,464.4 million and $927.2 million for the six months ended June 30, 2010 and 2009, respectively. The increase in cash used in financing activities is primarily due to the issuance of common stock and long-term debt in 2009 with no corresponding activity in 2010, offset by a decrease in net withdrawals of investment contracts.

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Shelf Registration. We currently have an effective shelf registration which allows us the ability to issue, in unlimited amounts, unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration.

Preferred Stock Dividend Restrictions and Payments. The certificates of designation for the Series A and B Preferred Stock restrict the declaration of preferred dividends if we fail to meet specified capital adequacy, net income or stockholders equity levels. As of June 30, 2010, we have no preferred dividend restrictions. The dividend payments on our preferred equity are not mandatory or cumulative, as our Board of Directors approves each quarterly dividend payment.

Short-Term Debt. The components of short-term debt as of June 30, 2010, and December 31, 2009, were as follows:

	June 30, 2010	December 31, 2009
	(in millions)	
Commercial paper	**$ 75.0**	$ 75.0
Other recourse short-term debt	**51.5**	26.6
Total short-term debt	**$ 126.5**	$ 101.6

Long-Term Debt. As of June 30, 2010, there have been no significant changes to long-term debt since December 31, 2009.

Stockholders Equity. For additional stockholders equity information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Stockholders Equity.

Capitalization

Our capital structure as of June 30, 2010, and December 31, 2009, consisted of debt and equity summarized as follows:

	June 30, 2010	December 31, 2009
	(in millions)	
Debt:		
Short-term debt	**$ 126.5**	$ 101.6
Long-term debt	**1,572.4**	1,584.6
Total debt	**1,698.9**	1,686.2
Stockholders equity:		
Equity attributable to Principal Financial Group, Inc. excluding accumulated other comprehensive income	**9,280.5**	8,935.5

Total capitalization excluding accumulated other comprehensive income	**$**	**10,979.4**	$	10,621.7
Debt to equity excluding accumulated other comprehensive income		**18%**		19%
Debt to capitalization excluding accumulated other comprehensive income		**15%**		16%

As of June 30, 2010, we had $1,049.1 million of excess capital, consisting of cash and highly liquid assets in the holding companies available for debt maturities, interest and preferred dividend expenses and other holding company obligations. We continue to maintain sufficient capital levels in Principal Life based on our current financial strength ratings.

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Contractual Obligations and Contractual Commitments

As of June 30, 2010, there have been no significant changes to contractual obligations and contractual commitments since December 31, 2009.

Off-Balance Sheet Arrangements

Variable Interest Entities. We have relationships with various types of special purpose entities and other entities where we have a variable interest as described in Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 2, Variable Interest Entities.

Guarantees and Indemnifications. As of June 30, 2010, there have been no significant changes to guarantees and indemnifications since December 31, 2009. For guarantee and indemnification information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 7, Contingencies, Guarantees and Indemnifications under the caption, Guarantees and Indemnifications.

Financial Strength Rating and Credit Ratings

Our ratings are influenced by the relative ratings of our peers/competitors as well as many other factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), risk exposures, operating leverage, ratings and other factors.

Nationally Recognized Statistical Rating Organizations (NRSROs) publish financial strength ratings on U.S. life insurance companies that are indicators of an insurance company s ability to meet contractholder and policyholder obligations. NRSROs also assign credit ratings on non-life insurance entities, such as PFG and PFS. Credit ratings are indicators of a debt issuer s ability to meet the terms of debt obligations in a timely manner, and are important factors in overall funding profile and ability to access external capital. Such ratings are not a recommendation to buy, sell or hold securities. Ratings are subject to revision or withdrawal at any time by the assigning NRSRO.

Each of A.M. Best Company, Inc., Fitch Ratings Ltd., Moody s Investors Service and Standard & Poor s revised its outlook for the U.S. life insurance sector to negative from stable in mid-to-late 2008. In the last few months, A.M. Best and Moody s have revised their outlooks back to stable. Standard & Poor s and Fitch indicate they will review the outlook later in 2010. The agencies indicate they believe the economic recovery will be slow moving, hampering earnings recovery, and creating the potential for further credit losses, particularly in the commercial and residential mortgage asset classes. However, all agencies also indicate there are positive signs for the U.S. life insurance sector. In May 2010, Standard & Poor s downgraded the financial strength rating of Principal Life and Principal National to A from A+ and changed the outlook to stable from positive. Standard & Poor s review was based on its new U.S. asset stress model.

The following table summarizes our significant financial strength and debt ratings from the major independent rating organizations. The debt ratings shown are indicative ratings. Outstanding issuances are rated the same as indicative ratings unless otherwise noted. Actual ratings can differ from indicative ratings based on contractual terms.

	A.M. Best	Fitch	Standard & Poor s	Moody s
Principal Financial Group				
Senior Unsecured Debt (1)			BBB	Baa1
Preferred Stock (2)			BB+	Baa3
Principal Financial Services				
Senior Unsecured Debt			BBB	
Commercial Paper			A-2	P-2
Principal Life Insurance Company				
Insurer Financial Strength	A+	AA-	A	Aa3
Enterprise Risk Management Rating			Strong	
Principal National Life Insurance Company				
Insurer Financial Strength	A+	AA-	A	Aa3

(1) Moody s has rated Principal Financial Group s senior debt issuance A3

(2) S&P has rated Principal Financial Group s preferred stock issuance BB

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Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels for disclosure purposes. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. An asset or liability s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. See Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, Fair Value Measurements for further details.

As of June 30, 2010, 36% of our net assets (liabilities) were Level 1, 60% were Level 2 and 4% were Level 3. Excluding separate account assets as of June 30, 2010, 1% of our net assets (liabilities) were Level 1, 97% were Level 2 and 2% were Level 3.

As of December 31, 2009, 37% of our net assets (liabilities) were Level 1, 58% were Level 2 and 5% were Level 3. Excluding separate account assets as of December 31, 2009, 3% of our net assets (liabilities) were Level 1, 95% were Level 2 and 2% were Level 3.

Changes in Level 3 fair value measurements

The net change for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2010, was as follows:

	Balance as of June 30, 2010	Balance as of December 31, 2009	Net change
		(in millions)	
Assets			
Fixed maturities, available-for-sale	**$ 939.9**	$ 1,172.6	$ (232.7)
Fixed maturities, trading	**240.6**	63.5	177.1
Equity securities, available-for-sale	**43.8**	71.7	(27.9)
Derivative assets	**37.4**	54.4	(17.0)
Other investments	**130.4**		130.4
Separate account assets	**3,960.4**	4,120.7	(160.3)
Liabilities			
Investment-type insurance contracts	**(78.2)**	(23.6)	(54.6)
Derivative liabilities	**(236.4)**	(93.7)	(142.7)
Other liabilities	**(145.3)**	(89.1)	(56.2)
Net total	**$ 4,892.6**	$ 5,276.5	$ (383.9)

The decrease in the fair value of Level 3 instruments for the six months ended June 30, 2010, is primarily related to fixed maturities, available-for-sale and separate account assets. The decrease in fixed maturities, available-for-sale is primarily due to our obtaining prices from third party pricing vendors versus relying on broker quotes or internal pricing models for certain structured securities, resulting in the transfer of

those assets out of Level 3 to Level 2. The decrease in separate account assets is primarily a result of sales on real estate. These decreases are partially offset by a net increase in fair value of Level 3 instruments related to the implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010. As a result of the new guidance, certain previously unconsolidated VIEs were consolidated and certain previously consolidated VIEs were deconsolidated. The fair value of Level 3 assets and liabilities of the newly consolidated and deconsolidated VIEs is primarily included in the net change for fixed maturities, trading; other investments; derivative liabilities and other liabilities.

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The net change for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009, was as follows:

	Balance as of June 30, 2009	Balance as of December 31, 2008	Net change
		(in millions)	
Assets			
Fixed maturities, available-for-sale	**$** 1,243.7	**$** 1,173.0	**$** 70.7
Fixed maturities, trading	68.2	60.7	7.5
Equity securities, available-for-sale	25.1	56.2	(31.1)
Derivative assets	67.6	100.7	(33.1)
Separate account assets	4,886.7	6,042.3	(1,155.6)
Liabilities			
Investment-type insurance contracts	(31.2)	(60.2)	29.0
Derivative liabilities	(165.5)	(266.9)	101.4
Other liabilities	(32.0)	(103.8)	71.8
Net total	$ 6,062.6	$ 7,002.0	$ (939.4)

The decrease in the fair value of Level 3 instruments for the six months ended June 30, 2009, is primarily attributed to separate account assets. The decrease in separate account assets is primarily a result of unrealized losses on real estate. Unrealized losses on separate accounts do not impact net income in the consolidated statements of operations as the change in value of separate account assets is offset by a change in value of separate account liabilities.

Investments

We had total consolidated assets as of June 30, 2010, of $136.6 billion, of which $65.9 billion were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not bear investment risk. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets.

Overall Composition of Invested Assets

Invested assets as of June 30, 2010, were predominantly high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in residential mortgage loans, real estate, equity securities and other assets. In addition, policy loans are included in our invested assets.

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	June 30, 2010		December 31, 2009	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	**$ 34,803.9**	**53%**	$ 33,719.6	53%
Private	**14,671.4**	**22**	13,533.4	21
Equity securities	**394.1**	**1**	435.5	1
Mortgage loans:				
Commercial	**9,775.6**	**15**	10,121.8	16
Residential	**1,517.0**	**2**	1,723.8	2
Real estate held for sale	**46.2**		35.4	
Real estate held for investment	**1,036.5**	**2**	999.2	2
Policy loans	**894.4**	**1**	902.5	1
Other investments	**2,758.0**	**4**	2,465.3	4
Total invested assets	**65,897.1**	**100%**	63,936.5	100%
Cash and cash equivalents	**1,827.3**		2,240.4	
Total invested assets and cash	**$ 67,724.4**		$ 66,176.9	

Investment Results

Net Investment Income

The following table presents the yield and investment income, excluding net realized capital gains and losses, for our invested assets for the periods indicated. We calculate annualized yields using a simple average of asset classes at the beginning and end of the reporting period. The yields for fixed maturities and equity securities are calculated using amortized cost and cost, respectively. All other yields are calculated using carrying amounts.

	For the three months ended June 30,				Increase (decrease)		For the six months ended June 30,				Increase (decrease)	
	2010		2009		2010 vs. 2009		2010		2009		2010 vs. 2009	
	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
						($ in millions)						
Fixed maturities	**5.8%**	**$ 711.3**	5.7%	$ 687.1	0.1%	$ 24.2	**5.7%**	**$ 1,399.6**	5.6%	$ 1,357.8	0.1%	$ 41.8
Equity securities	**3.0**	**3.3**	4.1	4.6	(1.1)	(1.3)	**3.2**	**7.1**	4.1	9.4	(0.9)	(2.3)
Mortgage loans commercial	**5.9**	**146.3**	5.8	157.0	0.1	(10.7)	**5.9**	**293.1**	5.8	316.9	0.1	(23.8)
Mortgage loans residential	**5.7**	**22.5**	4.5	20.2	1.2	2.3	**5.1**	**41.7**	3.4	30.6	1.7	11.1
Real estate	**4.3**	**11.5**	3.4	8.0	0.9	3.5	**4.0**	**21.3**	3.9	18.5	0.1	2.8
Policy loans	**6.8**	**15.1**	6.9	15.5	(0.1)	(0.4)	**6.9**	**30.9**	6.7	30.3	0.2	0.6
Cash and cash equivalents	**0.4**	**1.7**	0.4	3.5		(1.8)	**0.3**	**3.1**	0.4	6.9	(0.1)	(3.8)
Other investments	**(1.5)**	**(9.9)**	(1.4)	(8.8)	(0.1)	(1.1)	**(0.8)**	**(10.4)**	(1.7)	(22.3)	0.9	11.9
Total before investment expenses	**5.3**	**901.8**	5.1	887.1	0.2	14.7	**5.3**	**1,786.4**	5.0	1,748.1	0.3	38.3
Investment expenses	**(0.1)**	**(24.8)**	(0.1)	(27.0)		2.2	**(0.1)**	**(46.4)**	(0.2)	(59.5)	0.1	13.1

Net investment income	**5.2%**	**$ 877.0**	5.0%	$ 860.1	0.2%	$ 16.9	**5.2%**	**$ 1,740.0**	4.8%	$ 1,688.6	0.4%	$ 51.4

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Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Net investment income increased primarily due to higher inflation-based investment returns on average invested assets, most notably fixed maturities, related to inflation in Chile during 2010 versus deflation during 2009, and the strengthening of the Chilean peso against the U.S. dollar. This increase is partially offset by a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, and a decline in reinvestment yields. The decrease in average invested assets was primarily due to our decision to scale back our investment only business.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Net investment income on fixed maturities, mortgage loans-residential and other invested assets increased primarily due to higher inflation-based investment returns related to inflation in Chile during 2010 versus deflation during 2009, and the strengthening of the Chilean peso against the U.S. dollar. This increase is partially offset by a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities, primarily due to our decision to scale back our investment only business. Also offsetting the increase was a decline in reinvestment yields and lower yields on floating rate investments supporting floating rate liabilities.

Net Realized Capital Gains (Losses)

The following table presents the contributors to net realized capital gains (losses) for our invested assets for the periods indicated.

	For the three months ended June 30,		Increase (decrease)	For the six months ended June 30,		Increase (decrease)
	2010	2009	2010 vs. 2009	2010	2009	2010 vs. 2009
	(in millions)					
Fixed maturities, available-for-sale - credit impairments (1)	**$ (55.2)**	$ (113.7)	$ 58.5	**$ (132.6)**	$ (212.4)	$ 79.8
Fixed maturities, available-for-sale - other (2)	**0.2**	0.8	(0.6)	**8.4**	42.7	(34.3)
Fixed maturities, trading	**4.0**	18.2	(14.2)	**14.5**	41.8	(27.3)
Equity securities credit impairments	**(0.2)**	(7.8)	7.6	**3.8**	(1.7)	5.5
Derivatives and related hedge activities (3)	**(18.5)**	(38.6)	20.1	**5.1**	(33.1)	38.2
Commercial mortgages	**(15.6)**	(24.7)	9.1	**(32.8)**	(54.2)	21.4
Other gains (losses)	**18.9**	10.6	8.3	**21.7**	(1.6)	23.3
Net realized capital losses	**$ (66.4)**	$ (155.2)	$ 88.8	**$ (111.9)**	$ (218.5)	$ 106.6

(1) Includes credit impairments as well as gains or losses, net of realized credit recoveries on the sale of previously impaired securities, on sales of fixed maturities to reduce credit risk. Credit gains on sales, excluding associated foreign currency fluctuations that are included in derivatives and related hedge activities, were a net gain (loss) of $(0.9) million and $10.4 million for the three months ended June 30,

2010 and 2009, respectively, and $4.9 million and $14.0 million for the six months ended June 30, 2010 and 2009, respectively.

(2) Includes other gains and losses on sales.

(3) Includes fixed maturities, available-for-sale impairment-related net losses of $2.5 million and $2.3 million for the three and six months ended June 30, 2009, respectively, which were hedged by derivatives reflected in this line. We did not recognize any fixed maturities, available-for-sale impairment-related losses in derivatives and related hedge activities for the three and six months ended June 30, 2010.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Net realized capital losses on fixed maturities, available-for-sale - credit impairments decreased primarily due to lower impairments on corporate securities as a result of improved market conditions and lower credit losses on sales in 2010 relative to 2009 due to our decision to reduce exposure to BBB rated securities in 2009, partially offset by increased impairments on commercial mortgage-backed securities.

Net realized capital losses on derivatives and related hedge activities decreased due to gains versus losses on equity derivatives not designated as hedging instruments resulting from a decline in the S&P index. These gains were partially offset by losses versus gains on credit default swaps due to changes in credit spreads.

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Other net realized capital gains included an $80.1 million gain in the second quarter of 2010 resulting from the signing of our Shareholders Agreement with Banco pertaining to our Brasilprev joint venture. This gain was partially offset by a $66.5 million residential mortgage loan loss provision for our Bank and Trust Services business in the second quarter of 2010, which primarily related to the continued deterioration in the home equity portfolio resulting from sustained economic stress. Of this residential mortgage loan loss provision, $34.0 million related to 2009.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Net realized capital losses on fixed maturities, available-for-sale - credit impairments decreased primarily due to lower impairments on corporate securities as a result of improved market conditions and lower credit losses on sales in 2010 relative to 2009 due to our decision to reduce exposure to BBB rated securities in 2009, partially offset by increased impairments on commercial mortgage-backed securities. Net realized capital gains on fixed maturities, available-for-sale -other decreased due to lower gains on sales in 2010.

Net realized capital gains on fixed maturities, trading decreased due to lower mark-to-market gains on these securities resulting from an improvement in market liquidity during the second quarter of 2009 and larger credit spread tightening in 2009 as compared to 2010.

Net realized capital gains on derivatives and related hedge activities increased due to gains versus losses on equity derivatives and an increase in gains on periodic settlements and accruals on interest rate swaps not designated as hedging instruments, resulting from a decline in the S&P index and short-term interest rates relative to 2009. These gains were partially offset by losses versus gains on credit default swaps due to changes in credit spreads.

Net realized capital losses on commercial mortgages decreased due to a lower valuation allowance provision in 2010 than in 2009. For additional information, see Commercial Mortgage Loan Valuation Allowance.

Other net realized capital gains included an $80.1 million gain in 2010 resulting from the signing of our Shareholders Agreement with Banco pertaining to our Brasilprev joint venture. This gain was partially offset by a $73.6 million residential mortgage loan loss provision for our Bank and Trust Services business in 2010, which primarily related to the continued deterioration in our home equity portfolio resulting from sustained economic stress.

U.S. Investment Operations

Of our invested assets, $61.4 billion were held by our U.S. operations as of June 30, 2010. Our U.S. invested assets are managed primarily by our Global Asset Management segment. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to three primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest;

- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves and

- equity risk, relating to adverse fluctuations in a particular common stock, which we have limited exposure to in our portfolio.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding $500.0 million. As of June 30, 2010, there are nine members on the Investment Committee, one of whom is a member of our Board of Directors. The remaining members are senior management members representing various areas of our company.

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We also seek to reduce call or prepayment risk arising from changes in interest rates in individual investments. We limit our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer and we require additional yield on these investments to compensate for the risk that the issuer will exercise such option. We assess option risk in all investments we make and, when we take that risk, we price for it accordingly.

Our Fixed Income Securities Committee, consisting of fixed income securities senior management members, approves the credit rating for the fixed maturities we purchase. Teams of security analysts, organized by industry, analyze and monitor these investments. In addition, we have teams who specialize in residential mortgage-backed securities, CMBS, asset-backed securities (ABS) and below investment grade securities. Our analysts monitor issuers held in the portfolio on a continuous basis with a formal review documented annually or more frequently if material events affect the issuer. The analysis includes both fundamental and technical factors. The fundamental analysis encompasses both quantitative and qualitative analysis of the issuer. The qualitative analysis includes an assessment of both accounting and management aggressiveness of the issuer. In addition, technical indicators such as stock price volatility and credit default swap levels are monitored.

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

- material declines in the issuer s revenues or margins;
- significant management or organizational changes;
- significant uncertainty regarding the issuer s industry;
- debt service coverage or cash flow ratios that fall below industry-specific thresholds;
- violation of financial covenants and
- other business factors that relate to the issuer.

A dedicated risk management team is responsible for centralized monitoring of the commercial mortgage loan portfolio. We apply a variety of strategies to minimize credit risk in our commercial mortgage loan portfolio. When considering the origination of new commercial mortgage loans, we review the cash flow fundamentals of the property, make a physical assessment of the underlying security, conduct a comprehensive market analysis and compare against industry lending practices. We use a proprietary risk rating model to evaluate all new and a majority of existing loans within the portfolio. The proprietary risk model is designed to stress projected cash flows under simulated economic and market

downturns. Our lending guidelines are typically 65% or less loan-to-value ratios and a debt service coverage ratio of at least 1.5 times. We analyze investments outside of these guidelines based on cash flow quality, tenancy and other factors. The weighted average loan-to-value ratio at origination for new brick and mortar commercial mortgages, excluding Global Asset Management segment mortgages, in our portfolio was 54% and 52% as of June 30, 2010 and December 31, 2009, respectively. The debt service coverage ratio at loan inception for new brick and mortar commercial mortgages, excluding Global Asset Management segment mortgages, in our portfolio was 2.0 times as of both June 30, 2010 and December 31, 2009. The weighted average loan-to-value ratio for loans held in our brick and mortar commercial mortgage portfolio, excluding Global Asset Management segment mortgages, was 68% as of June 30, 2010, and 69% as of December 31, 2009. The debt service coverage ratio for loans held in our brick and mortar commercial mortgage portfolio, excluding Global Asset Management segment mortgages, was 1.7 times as of June 30, 2010, and 1.8 times as of December 31, 2009.

Our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations. For further information on our management of interest rate risk, see Item 3. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk.

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Overall Composition of U.S. Invested Assets

As shown in the following table, the major categories of U.S. invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in other investments, real estate, residential mortgage loans and equity securities. In addition, policy loans are included in our invested assets. The following discussion analyzes the composition of U.S. invested assets, but excludes invested assets of the separate accounts.

	June 30, 2010		December 31, 2009	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	**$ 31,919.4**	**52%**	$ 30,952.5	52%
Private	**14,671.4**	**24**	13,533.4	23
Equity securities	**340.8**	**1**	388.8	1
Mortgage loans:				
Commercial	**9,775.6**	**16**	10,121.8	17
Residential	**982.5**	**1**	1,128.7	2
Real estate held for sale	**37.8**		23.8	
Real estate held for investment	**1,035.8**	**2**	998.4	2
Policy loans	**874.3**	**1**	881.3	1
Other investments	**1,772.7**	**3**	1,480.2	2
Total invested assets	**61,410.3**	**100%**	59,508.9	100%
Cash and cash equivalents	**1,761.9**		2,192.3	
Total invested assets and cash	**$ 63,172.2**		$ 61,701.2	

Fixed Maturities

Fixed maturities consist of publicly traded and privately placed bonds, asset-backed securities, redeemable preferred stock and certain nonredeemable preferred stock. Included in the privately placed category as of June 30, 2010 and December 31, 2009, were $8.8 billion and $7.4 billion, respectively, of securities subject to certain holding periods and resale restrictions pursuant to Rule 144A of the Securities Act of 1933. Fixed maturities include trading portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities. We held $488.0 million and $348.1 million of these trading securities as of June 30, 2010 and December 31, 2009, respectively.

Fixed maturities were diversified by category of issuer, as shown in the following table for the periods indicated.

	June 30, 2010		December 31, 2009	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
U.S. government and agencies	**$ 794.8**	**2%**	$ 781.9	2%
States and political subdivisions	**2,531.5**	**5**	2,218.2	5

Non-U.S. governments	**430.5**	**1**		462.4	1
Corporate public	**19,837.8**	**43**		19,182.8	43
Corporate private	**12,377.8**	**27**		11,604.7	26
Residential pass-through securities	**3,177.4**	**7**		3,367.7	7
Commercial mortgage-backed securities	**3,851.6**	**8**		3,602.9	8
Residential collateralized mortgage obligations	**1,503.9**	**3**		1,172.4	3
Asset-backed securities	**2,085.5**	**4**		2,092.9	5
Total fixed maturities	**$ 46,590.8**	**100%**	$	44,485.9	100%

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

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CMBS provide varying levels of credit protection, diversification and reduced event risk depending on the securities owned and composition of the loan pool. CMBS are predominantly comprised of large pool securitizations that are diverse by property type, borrower and geographic dispersion. The risks to any CMBS deal are determined by the credit quality of the underlying loans and how those loans perform over time. Another key risk is the vintage of the underlying loans and the state of the markets during a particular vintage. In the CMBS market, there is a material difference in the outlook for the performance of loans originated in 2005 and earlier relative to loans originated in 2006 through 2008. For loans originated prior to 2006, underwriting assumptions were more conservative regarding required debt service coverage and loan-to-value ratios. For the 2006 through 2008 vintages, real estate values peaked and the underwriting expectations were that values would continue to increase, which makes those loan values more sensitive to market declines.

We purchase ABS to diversify the overall credit risks of the fixed maturities portfolio and to provide attractive returns. The principal risks in holding ABS are structural and credit risks. Structural risks include the security s priority in the issuer s capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks involve issuer/servicer risk where collateral values can become impaired in the event of servicer credit deterioration. Our ABS portfolio is diversified both by type of asset and by issuer. We actively monitor holdings of ABS to ensure that the risk profile of each security improves or remains consistent. Prepayments in the ABS portfolio are, in general, insensitive to changes in interest rates or are insulated from such changes by call protection features. In the event that we are subject to prepayment risk, we monitor the factors that impact the level of prepayment and prepayment speed for those ABS. In addition, we diversify the risks of ABS by holding a diverse class of securities, which limits our exposure to any one security.

The international exposure held in our U.S. operation s fixed maturities portfolio was 22% of total fixed maturities as of both June 30, 2010 and December 31, 2009. It is comprised of corporate and foreign government fixed maturities. The following table presents our international exposure for our U.S. operation s fixed maturities portfolio for the periods indicated.

	June 30, 2010 Carrying amount	December 31, 2009 Carrying amount
	(in millions)	
European Union	**$ 2,846.0**	$ 2,913.1
United Kingdom	**2,185.0**	2,219.8
Australia	**1,176.8**	1,127.5
Asia	**1,108.1**	1,067.5
South America	**586.3**	523.9
Mexico	**319.7**	269.1
Japan	**132.4**	54.6
Other countries (1)	**1,773.4**	1,494.3
Total	**$ 10,127.7**	$ 9,669.8

(1) Includes exposure from 22 countries as of June 30, 2010, and 23 countries as of December 31, 2009.

All international fixed maturities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturities investments to 20% of Principal Life s total statutory general account assets with a 4% limit in emerging markets. Exposure to Canada is not included in our international exposure. As of June 30, 2010 and December 31, 2009, our investments in Canada totaled $1,702.7 million and $1,612.7 million, respectively.

Fixed Maturities Credit Concentrations. One aspect of managing credit risk is through industry, issuer and asset class diversification. Our credit concentrations are managed to established limits. The exposure attributed to monoline bond and mortgage insurers from investments that are guaranteed by them is not included in the evaluation of our top ten exposures. We are not relying on said guarantors and are directly evaluating exposure to these investments. The following table presents our top ten exposures as of June 30, 2010.

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		Amortized cost (in millions)
JP Morgan Chase & Co.	$	302.1
Bank of America Corp. (1)		256.4
Wells Fargo & Co. (1)		249.1
AT&T Inc.		236.8
General Electric Co.		229.3
Berkshire Hathaway Inc.		224.0
Export Import Bank of U.S.		211.4
Telefonica SA		178.1
Verizon Communications Inc.		170.6
Goldman Sachs Group, Inc.		155.9
Total top ten exposures	$	2,213.7

(1) Includes actual counterparty exposure.

We had exposure to monoline bond and mortgage insurers with an amortized cost of $677.7 million and a carrying amount of $705.9 million as of June 30, 2010. The $677.7 million includes wrapped guarantees on $651.6 million of underlying municipal bonds, corporate credit or ABS. Our direct exposure to these insurers was $26.1 million. Of the $651.6 million in wrapped guarantees, 45% was investment grade municipal bonds; 38% was investment grade bank perpetual preferred securities; 10% was ABS backed by sub-prime or Alt-A first lien mortgages, of which 28% was investment grade; and 7% was corporate fixed maturities, of which 92% was investment grade.

Fixed Maturities Valuation and Credit Quality. Valuation techniques for the fixed maturities portfolio vary by security type and the availability of market data. The use of different pricing techniques and their assumptions could produce different financial results. See Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, Fair Value Measurements for further details regarding our pricing methodology. Once prices are determined, they are reviewed by pricing analysts for reasonableness based on asset class and observable market data. In addition, investment analysts who are familiar with specific securities review prices for reasonableness through direct interaction with external sources, review of recent trade activity or use of internal models. Monthly, all bonds placed on the watch list are analyzed by investment analysts or analysts that focus on troubled securities (Workout Group). This group then meets with the Chief Investment Officer and the Portfolio Managers to determine reasonableness of prices. The valuation of impaired bonds for which there is no quoted price is typically based on the present value of the future cash flows expected to be received. Although we believe these values reasonably reflect the fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other market factors involve qualitative and unobservable inputs.

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) monitors the bond investments of insurers for regulatory reporting purposes and, when required, assigns securities to one of six investment categories. In 2009, the NAIC approved an initiative to create a new modeling and assessment process for non-agency residential mortgage-backed securities effective December 31, 2009. The NAIC retained PIMCO Advisors to undertake the modeling and assignment of the NAIC ratings for these securities. The NAIC designations closely mirror the NRSROs credit ratings for marketable bonds. NAIC designations 1 and 2 include bonds considered investment grade by such rating organizations. Bonds are considered investment grade when rated Baa3 or higher by Moody s, or BBB- or higher by Standard & Poor s. NAIC designations 3 through 6 are referred to as below investment grade. Bonds are considered below investment grade when rated Ba1 or lower by Moody s, or BB+ or lower by Standard & Poor s. As of June 30, 2010, the percentage, based on fair value, of total publicly traded and privately placed fixed maturities that were investment grade with an NAIC designation 1 or 2 was 93%.

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The following table presents our total fixed maturities by NAIC designation and the equivalent ratings of the NRSROs as of the periods indicated as well as the percentage, based on fair value, that each designation comprises.

		June 30, 2010			December 31, 2009		
NAIC rating	**Rating agency equivalent**	**Amortized cost**	**Carrying amount**	**% of total carrying amount**	**Amortized cost**	**Carrying amount**	**% of total carrying amount**
				($ in millions)			
1	AAA/AA/A	**$ 26,240.5**	**$ 26,969.0**	**58%**	$ 25,527.2	$ 25,341.5	57%
2	BBB	**15,935.9**	**16,323.3**	**35**	15,885.1	15,726.8	35
3	BB	**2,552.5**	**2,136.1**	**4**	2,824.1	2,259.4	5
4	B	**1,066.5**	**740.7**	**2**	982.8	701.3	2
5	CCC and lower	**415.1**	**315.1**	**1**	376.1	253.0	1
6	In or near default	**250.3**	**106.6**		349.4	203.9	
	Total fixed maturities	**$ 46,460.8**	**$ 46,590.8**	**100%**	$ 45,944.7	$ 44,485.9	100%

Fixed maturities include 27 securities with an amortized cost of $280.5 million, gross gains of $8.0 million, gross losses of $9.9 million and a carrying amount of $278.6 million as of June 30, 2010, that are still pending a review and assignment of a rating by the SVO. Due to the timing of when fixed maturities are purchased, legal documents are filed and the review by the SVO is completed, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst s assessment.

Commercial Mortgage-Backed Securities and Home Equity Asset-Backed Securities Portfolios. As of June 30, 2010, based on amortized cost, 61% of our CMBS portfolio had ratings of A or higher and 51% was issued in 2005 or before and 41% of our ABS home equity portfolio had ratings of A or higher and 86% was issued in 2005 or before.

The following tables present credit quality and year of issuance (vintage) for our CMBS as of the periods indicated.

	June 30, 2010											
	AAA		**AA**		**A**		**BBB**		**BB+ and Below**		**Total**	
	Amortized cost	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**
						(in millions)						
2003 & Prior	**$ 523.4**	**$ 520.3**	**$ 164.4**	**$ 162.8**	**$ 166.7**	**$ 158.9**	**$ 145.5**	**$ 133.6**	**$ 104.2**	**$ 61.7**	**$ 1,104.2**	**$ 1,037.3**
2004	**280.7**	**283.8**	**61.0**	**57.5**	**69.8**	**53.7**	**41.5**	**23.1**	**64.4**	**34.3**	**517.4**	**452.4**
2005	**431.3**	**454.9**	**28.4**	**28.1**	**28.0**	**18.3**	**126.6**	**83.9**	**185.7**	**79.6**	**800.0**	**664.8**
2006	**241.2**	**236.8**	**9.6**	**11.5**	**57.9**	**54.5**	**36.4**	**25.8**	**163.9**	**54.2**	**509.0**	**382.8**
2007	**430.5**	**421.7**	**38.0**	**38.4**	**179.9**	**174.9**	**291.7**	**259.6**	**669.2**	**218.6**	**1,609.3**	**1,113.2**
2008	**4.6**	**4.8**	**15.1**	**15.1**	**28.2**	**28.7**	**11.7**	**6.8**	**35.2**	**15.6**	**94.8**	**71.0**
2009	**92.5**	**96.1**									**92.5**	**96.1**
2010	**29.9**	**30.6**	**3.3**	**3.4**							**33.2**	**34.0**
Total	**$ 2,034.1**	**$ 2,049.0**	**$ 319.8**	**$ 316.8**	**$ 530.5**	**$ 489.0**	**$ 653.4**	**$ 532.8**	**$ 1,222.6**	**$ 464.0**	**$ 4,760.4**	**$ 3,851.6**

December 31, 2009

	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & Prior	$ 727.8	$ 722.2	$ 178.1	$ 170.6	$ 173.9	$ 151.2	$ 163.9	$ 135.8	$ 96.9	$ 36.8	$ 1,340.6	$ 1,216.6
2004	296.8	291.4	60.9	50.5	81.7	46.4	43.2	18.3	50.7	24.6	533.3	431.2
2005	451.9	446.4	59.5	41.7	88.5	47.1	106.4	46.0	127.1	43.2	833.4	624.4
2006	215.2	196.0	14.9	13.8	70.8	57.2	76.3	42.1	148.5	27.1	525.7	336.2
2007	355.4	326.4	48.5	42.2	176.6	147.2	282.8	196.6	680.1	191.3	1,543.4	903.7
2008	4.6	3.9	15.1	13.1	24.2	21.9	11.5	4.6	35.4	13.7	90.8	57.2
2009	34.0	33.6									34.0	33.6
Total	$ 2,085.7	$ 2,019.9	$ 377.0	$ 331.9	$ 615.7	$ 471.0	$ 684.1	$ 443.4	$ 1,138.7	$ 336.7	$ 4,901.2	$ 3,602.9

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The following tables present our exposure to ABS home equity portfolio supported by subprime first lien mortgages by credit quality and vintage as of the periods indicated.

	June 30, 2010											
	AAA		AA		A		BBB		BB and below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & prior	$ 35.5	$ 34.3	$ 69.5	$ 58.4	$ 8.4	$ 7.8	$ 56.4	$ 43.6	$ 57.0	$ 36.0	$ 226.8	$ 180.1
2004	28.7	24.8	18.3	15.5	13.1	13.1	12.5	11.2	6.1	4.7	78.7	69.3
2005	3.1	3.0	7.7	2.9	2.0	1.2			70.7	46.8	83.5	53.9
2006									15.8	9.6	15.8	9.6
2007									49.2	36.9	49.2	36.9
Total	$ 67.3	$ 62.1	$ 95.5	$ 76.8	$ 23.5	$ 22.1	$ 68.9	$ 54.8	$ 198.8	$ 134.0	$ 454.0	$ 349.8

	December 31, 2009											
	AAA		AA		A		BBB		BB and below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & prior	$ 72.5	$ 62.3	$ 75.3	$ 55.6	$ 5.0	$ 3.3	$ 40.9	$ 25.7	$ 44.9	$ 23.0	$ 238.6	$ 169.9
2004	49.6	37.7	13.1	8.3	9.4	7.7	10.6	7.8			82.7	61.5
2005	8.1	4.7	10.1	4.2	2.0	1.3			75.1	34.0	95.3	44.2
2006									16.7	7.8	16.7	7.8
2007									53.8	30.6	53.8	30.6
Total	$ 130.2	$ 104.7	$ 98.5	$ 68.1	$ 16.4	$ 12.3	$ 51.5	$ 33.5	$ 190.5	$ 95.4	$ 487.1	$ 314.0

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

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

	June 30, 2010	December 31, 2009
	($ in millions)	
Total fixed maturities (public and private) (1)	$ 46,590.8	$ 44,485.9
Problem fixed maturities (2)	$ 275.6	$ 237.3

Potential problem fixed maturities		**304.3**		315.9
Total problem and potential problem fixed maturities	**$**	**579.9**	$	553.2
Total problem and potential problem fixed maturities as a percent of total fixed maturities		**1.24%**		1.24%

(1) There were no restructured fixed maturities for the periods indicated.

(2) The problem fixed maturities carrying amount is net of other-than-temporary impairment losses.

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

Each reporting period, a group of individuals including the Chief Investment Officer, our Portfolio Managers, members of our Workout Group and representatives from Investment Accounting review all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. The analysis focuses on each issuer s ability to service its debts in a timely fashion. Formal documentation of the analysis and our decision is prepared and approved by management.

We consider relevant facts and circumstances in evaluating whether a credit or interest-rate related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events and (4) our intent to sell the security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized. For additional details, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments.

When it is not our intent to sell a security with unrealized losses, it is not more likely than not that we would be required to sell the security before recovery of the amortized cost, which may be maturity, and we expect to recover the amortized cost basis, we would not consider the security to be other-than-temporarily impaired. However, we do sell bonds under certain circumstances, such as when we have evidence of a significant deterioration in the issuer s creditworthiness, when a change in regulatory requirements modifies what constitutes a permissible investment or the maximum level of investments held or when there is an increase in capital requirements or a change in risk weights of debt securities. Sales generate both gains and losses.

There are a number of significant risks and uncertainties inherent in the process of monitoring credit impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to not sell the security prior to recovery of its amortized cost. Any of these situations could result in a charge to net income in a future period.

The net realized loss relating to other-than-temporary credit impairments of fixed maturities was $137.5 million and $225.8 million for the six months ended June 30, 2010 and 2009, respectively.

Fixed Maturities Available-for-Sale

The following tables present our fixed maturities available-for-sale by industry category and the associated gross unrealized gains and losses, including other-than-temporary impairment losses reported in AOCI, as of the periods indicated.

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	June 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,602.7	$ 92.8	$ 387.5	$ 4,308.0
Finance Brokerage	432.7	19.9	3.6	449.0
Finance Finance Companies	223.6	11.4	7.3	227.7
Finance Financial Other	563.7	39.2	5.5	597.4
Finance Insurance	2,780.4	122.9	113.6	2,789.7
Finance REITS	1,234.9	28.9	34.9	1,228.9
Industrial Basic Industry	1,801.9	110.6	13.7	1,898.8
Industrial Capital Goods	2,388.2	152.9	13.1	2,528.0
Industrial Communications	2,508.0	184.8	15.1	2,677.7
Industrial Consumer Cyclical	1,693.6	104.5	21.5	1,776.6
Industrial Consumer Non-Cyclical	3,263.9	267.9	22.6	3,509.2
Industrial Energy	1,994.9	141.1	20.3	2,115.7
Industrial Other	627.3	38.0	19.7	645.6
Industrial Technology	794.6	50.1	8.2	836.5
Industrial Transportation	704.0	39.5	12.3	731.2
Utility Electric	2,582.4	191.2	11.7	2,761.9
Utility Natural Gas	1,086.0	78.4	4.2	1,160.2
Utility Other	151.9	15.2	0.3	166.8
FDIC guaranteed	95.0	2.4		97.4
Government guaranteed	1,268.6	94.3	10.5	1,352.4
Total corporate securities	30,798.3	1,786.0	725.6	31,858.7
Residential pass-through securities	2,898.2	135.8	0.7	3,033.3
Commercial mortgage-backed securities	4,757.0	74.9	983.7	3,848.2
Residential collateralized mortgage obligations (1)	1,455.0	30.8	65.4	1,420.4
Asset-backed securities Home equity (2)	454.0	0.1	104.3	349.8
Asset-backed securities All other	1,253.2	42.3	2.2	1,293.3
Collateralized debt obligations Credit	155.6		64.6	91.0
Collateralized debt obligations CMBS	235.2	0.2	102.4	133.0
Collateralized debt obligations Loans	109.3	0.4	10.1	99.6
Collateralized debt obligations ABS (3)	44.3	0.5	14.9	29.9
Total mortgage-backed and other asset-backed securities	11,361.8	285.0	1,348.3	10,298.5
U.S. government and agencies	587.1	21.9		609.0
States and political subdivisions	2,283.5	82.1	7.5	2,358.1
Non-U.S. governments	394.1	36.5	0.1	430.5
Total fixed maturities, available-for-sale	$ 45,424.8	$ 2,211.5	$ 2,081.5	$ 45,554.8

(1) Includes exposure to Alt-a mortgage loans with an amortized cost of $61.2 million, gross unrealized gains of $0.1, gross unrealized losses of $8.1 million and a carrying amount of $53.2 million. The Alt-a portfolio has a weighted average rating of A and 61% are 2005 and prior vintages.

(2) This exposure is all related to sub-prime mortgage loans.

(3) Includes exposure to sub-prime mortgage loans with an amortized cost of $19.8 million, gross unrealized gains of $0.5 million, gross unrealized losses of $9.5 million and a carrying amount of $10.8 million.

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	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,288.5	$ 68.2	$ 480.4	$ 3,876.3
Finance Brokerage	428.6	11.0	6.4	433.2
Finance Finance Companies	265.2	9.0	18.7	255.5
Finance Financial Other	535.6	26.0	8.6	553.0
Finance Insurance	2,714.9	36.5	207.9	2,543.5
Finance REITS	1,327.1	14.6	80.0	1,261.7
Industrial Basic Industry	1,921.4	74.9	19.1	1,977.2
Industrial Capital Goods	2,364.0	99.1	33.0	2,430.1
Industrial Communications	2,761.6	174.3	21.8	2,914.1
Industrial Consumer Cyclical	1,597.0	69.4	32.0	1,634.4
Industrial Consumer Non-Cyclical	3,149.6	172.0	27.4	3,294.2
Industrial Energy	1,933.3	108.3	19.2	2,022.4
Industrial Other	700.0	22.8	20.0	702.8
Industrial Technology	765.0	31.6	11.2	785.4
Industrial Transportation	934.9	41.7	18.4	958.2
Utility Electric	2,518.6	115.6	18.6	2,615.6
Utility Natural Gas	1,086.2	66.0	7.4	1,144.8
Utility Other	122.8	3.2	0.6	125.4
FDIC guaranteed	96.1	1.4		97.5
Government guaranteed	1,102.8	76.3	16.9	1,162.2
Total corporate securities	30,613.2	1,221.9	1,047.6	30,787.5
Residential pass-through securities	3,019.1	86.0	3.8	3,101.3
Commercial mortgage-backed securities	4,898.0	20.9	1,319.2	3,599.7
Residential collateralized mortgage obligations (1)	1,198.9	13.5	114.9	1,097.5
Asset-backed securities Home equity (2)	487.1		173.1	314.0
Asset-backed securities All other	1,308.1	21.1	15.5	1,313.7
Collateralized debt obligations Credit	197.2	1.5	67.0	131.7
Collateralized debt obligations CMBS	257.0		129.4	127.6
Collateralized debt obligations Loans	101.4		21.4	80.0
Collateralized debt obligations ABS (3)	51.9	0.3	21.9	30.3
Total mortgage-backed and other asset-backed securities	11,518.7	143.3	1,866.2	9,795.8
U.S. government and agencies	550.1	9.1	0.5	558.7
States and political subdivisions	2,008.7	53.4	13.5	2,048.6
Non-U.S. governments	421.1	42.4	1.1	462.4
Total fixed maturities, available-for-sale	$ 45,111.8	$ 1,470.1	$ 2,928.9	$ 43,653.0

(1) Includes exposure to Alt-a mortgage loans with an amortized cost of $59.6 million, gross unrealized losses of $18.2 million and a carrying amount of $41.4 million. The Alt-a portfolio has a weighted average rating of BBB and 66% are 2005 and prior vintages.

(2) This exposure is all related to sub-prime mortgage loans.

(3) Includes exposure to sub-prime mortgage loans with an amortized cost of $27.4 million, gross unrealized gains of $0.3 million, gross unrealized losses of $17.9 million and a carrying amount of $9.8 million.

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Of the $2,081.5 million in gross unrealized losses as of June 30, 2010, there were $7.8 million in losses attributed to securities scheduled to mature in one year or less, $97.1 million attributed to securities scheduled to mature between one to five years, $119.3 million attributed to securities scheduled to mature between five to ten years, $509.0 million attributed to securities scheduled to mature after ten years and $1,348.3 million related to mortgage-backed and other ABS that are not classified by maturity year. As of June 30, 2010, we were in a $130.0 million net unrealized gain position as compared to a $1,458.8 million net unrealized loss position as of December 31, 2009. Of the $1,588.8 million decrease in net unrealized losses for the six months ended June 30, 2010, an approximate $1.4 billion net unrealized gain can be attributed to an approximate 71 basis points decrease in interest rates and the remaining net unrealized gains related to other market factors.

Credit Disruption. The credit disruption in the market that began in the last half of 2007 from concerns in the sub-prime markets, and continued into 2008 and 2009 with concerns in the leveraged finance markets has led to reduced liquidity and wider credit spreads. These credit concerns led to widespread forced selling into a very thinly traded market, which further strained market liquidity. This market disruption lowered valuations and, as a result, we have seen an increase in unrealized losses in our securities portfolio. The losses were more pronounced in the Finance sectors and in structured products such as collateralized debt obligations, ABS and CMBS. The decline in value in large part reflects the illiquid markets. During the second quarter of 2009 and continuing through the end of 2009, a narrowing of credit spreads and improvement in liquidity resulted in a decrease in the unrealized losses in our securities portfolio. During the first half of 2010, unrealized losses continued to decrease relative to year-end 2009, primarily due to a decline in interest rates. Future changes in the fair value of these securities will be dependent on continued improvement in market liquidity and changes in general market conditions, including interest rates and credit spread movements. We concluded the prices of the securities in our securities portfolio were temporarily depressed due to (1) the issuers continued satisfaction of the securities obligations in accordance with their contractual terms, (2) the expectation the issuers will continue to satisfy their obligations given the evaluation of the fundamentals of the issuers financial condition and other objective evidence and (3) management not having the intent to sell these securities and as it is not more likely than not that we would be required to sell these securities before the recovery of the amortized cost.

Fixed Maturities Available-for-Sale Securities Unrealized Losses. We believe that our long-term fixed maturities portfolio is well diversified among industry types and between publicly traded and privately placed securities. Each year, we direct the majority of our net cash inflows into investment grade fixed maturities. The net cash inflows into investment grade fixed maturities are less than prior years due to us investing in more liquid investments. Our current policy is to limit the percentage of cash flow invested in below investment grade assets to 10% of cash flow. As of June 30, 2010, none of our new cash flow for the year was invested in below investment grade assets. While Principal Life s general account investment returns have improved due to the below investment grade asset class, we manage its growth strategically by limiting it to no more than 10% of the total fixed maturities portfolios.

We invest in privately placed fixed maturities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide broader access to management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by federal and state securities laws and illiquid trading markets.

The following table presents our fixed maturities available-for-sale by investment grade and below investment grade and the associated gross unrealized gains and losses, including other-than-temporary impairment losses reported in OCI, as of the periods indicated.

	June 30, 2010				December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)							

Investment grade:									
Public	**$ 28,637.3**	**$ 1,491.9**	**$ 613.2**	**$ 29,516.0**	$ 28,439.8	$ 990.9	$ 1,015.0	$ 28,415.7
Private	**12,684.1**	**664.7**	**427.5**	**12,921.3**	12,159.7	423.3	743.2	11,839.8
Below investment grade:								
Public	**2,009.1**	**19.3**	**389.4**	**1,639.0**	2,233.8	14.4	468.5	1,779.7
Private	**2,094.3**	**35.6**	**651.4**	**1,478.5**	2,278.5	41.5	702.2	1,617.8
Total fixed maturities, available-for-sale	**$ 45,424.8**	**$ 2,211.5**	**$ 2,081.5**	**$ 45,554.8**	$ 45,111.8	$ 1,470.1	$ 2,928.9	$ 43,653.0

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The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in OCI, on investment grade fixed maturities available-for-sale by aging category as of the periods indicated.

	June 30, 2010					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 1,187.1	$ 29.8	$ 450.3	$ 7.3	$ 1,637.4	$ 37.1
Greater than three to six months	412.1	10.3	171.5	10.1	583.6	20.4
Greater than six to nine months	82.3	1.5	29.6	2.2	111.9	3.7
Greater than nine to twelve months	33.5	8.3	28.8	0.6	62.3	8.9
Greater than twelve to twenty-four months	342.4	38.0	313.6	33.2	656.0	71.2
Greater than twenty-four to thirty-six months	1,619.5	295.2	1,400.7	178.5	3,020.2	473.7
Greater than thirty-six months	1,394.1	230.1	1,131.3	195.6	2,525.4	425.7
Total fixed maturities, available-for-sale	$ 5,071.0	$ 613.2	$ 3,525.8	$ 427.5	$ 8,596.8	$ 1,040.7

	December 31, 2009					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 2,367.4	$ 34.5	$ 927.7	$ 21.2	$ 3,295.1	$ 55.7
Greater than three to six months	139.0	9.7	39.2	1.0	178.2	10.7
Greater than six to nine months	24.0	0.2	22.3	5.1	46.3	5.3
Greater than nine to twelve months	75.6	14.9	50.4	6.9	126.0	21.8
Greater than twelve to twenty-four months	2,169.7	361.2	1,596.0	207.6	3,765.7	568.8
Greater than twenty-four to thirty-six months	1,846.6	415.0	1,650.2	346.2	3,496.8	761.2
Greater than thirty-six months	1,256.7	179.5	659.4	155.2	1,916.1	334.7
Total fixed maturities, available-for-sale	$ 7,879.0	$ 1,015.0	$ 4,945.2	$ 743.2	$ 12,824.2	$ 1,758.2

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in OCI, on below investment grade fixed maturities available-for-sale by aging category as of the periods indicated.

	June 30, 2010		
	Public	Private	Total

	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
			(in millions)			
Three months or less	$ 85.3	$ 3.9	$ 50.8	$ 1.2	$ 136.1	$ 5.1
Greater than three to six months	49.7	3.6	42.2	6.6	91.9	10.2
Greater than six to nine months	4.9	1.1	0.1		5.0	1.1
Greater than nine to twelve months						
Greater than twelve to twenty-four months	42.7	8.5	66.3	25.7	109.0	34.2
Greater than twenty-four to thirty-six months	575.0	256.3	400.6	320.3	975.6	576.6
Greater than thirty-six months	338.8	116.0	247.3	297.6	586.1	413.6
Total fixed maturities, available-for-sale	$ 1,096.4	$ 389.4	$ 807.3	$ 651.4	$ 1,903.7	$ 1,040.8

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	December 31, 2009					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 55.7	$ 3.3	$ 52.8	$ 1.2	$ 108.5	$ 4.5
Greater than three to six months	3.4		14.8		18.2	
Greater than six to nine months	12.7	0.2	0.1	0.1	12.8	0.3
Greater than nine to twelve months	32.8	11.2	1.0	1.8	33.8	13.0
Greater than twelve to twenty-four months	441.3	112.2	365.6	186.7	806.9	298.9
Greater than twenty-four to thirty-six months	609.0	314.8	403.5	435.8	1,012.5	750.6
Greater than thirty-six months	113.8	26.8	84.6	76.6	198.4	103.4
Total fixed maturities, available-for-sale	$ 1,268.7	$ 468.5	$ 922.4	$ 702.2	$ 2,191.1	$ 1,170.7

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in OCI, on fixed maturities available-for-sale where the estimated fair value had declined and remained below amortized cost by 20% or more as of the periods indicated.

	June 30, 2010					
	Problem, potential problem, and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	**$ 54.7**	**$ 15.9**	**$ 566.6**	**$ 195.5**	**$ 621.3**	**$ 211.4**
Greater than three to six months	**23.1**	**10.3**	**1.0**	**0.4**	**24.1**	**10.7**
Greater than six to nine months	**5.6**	**1.7**	**19.2**	**6.0**	**24.8**	**7.7**
Greater than nine to twelve months						
Greater than twelve months	**267.1**	**512.0**	**991.7**	**835.0**	**1,258.8**	**1,347.0**
Total fixed maturities, available-for-sale	**$ 350.5**	**$ 539.9**	**$ 1,578.5**	**$ 1,036.9**	**$ 1,929.0**	**$ 1,576.8**

	December 31, 2009					
	Problem, potential problem, and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 6.1	$ 2.0	$ 243.8	$ 77.4	$ 249.9	$ 79.4
			31.8	9.2	31.8	9.2

Greater than three to six months						
Greater than six to nine months	0.1	0.1	46.0	22.5	46.1	22.6
Greater than nine to twelve months	28.8	24.8	49.9	25.4	78.7	50.2
Greater than twelve months	276.8	438.3	1,812.8	1,578.5	2,089.6	2,016.8
Total fixed maturities, available-for-sale	$ 311.8	$ 465.2	$ 2,184.3	$ 1,713.0	$ 2,496.1	$ 2,178.2

Mortgage Loans

Mortgage loans consist of commercial mortgage loans on real estate and residential mortgage loans. The carrying amount of our commercial mortgage loan portfolio was $9,775.6 million and $10,121.8 million as of June 30, 2010 and December 31, 2009, respectively. The carrying amount of our residential mortgage loan portfolio was $982.5 million and $1,128.7 million as of June 30, 2010 and December 31, 2009, respectively.

Commercial Mortgage Loans. We generally report commercial mortgage loans on real estate at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances. Commercial mortgage loans held for sale are carried at the lower of cost or fair value, less cost to sell, and reported as mortgage loans in the statements of financial position.

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Commercial mortgage loans play an important role in our investment strategy by:

- providing strong risk-adjusted relative value in comparison to other investment alternatives;
- enhancing total returns and
- providing strategic portfolio diversification.

As a result, we have focused on constructing a solid, high quality portfolio of mortgages. Our portfolio is generally comprised of mortgages originated with conservative loan-to-value ratios, high debt service coverages and general purpose property types with a strong credit tenancy.

Our commercial mortgage loan portfolio consists of primarily non-recourse, fixed rate mortgages on fully or near fully leased properties. The mortgage portfolio is comprised primarily of office properties, credit oriented retail properties and general-purpose industrial properties. In addition, we have a $144.3 million and a $174.4 million short-term high yield portfolio of mortgages held within the Global Asset Management segment as of June 30, 2010 and December 31, 2009, respectively.

The commercial mortgage loan portfolio is diversified by geographic region and specific collateral property as shown in the following table for the periods indicated.

	June 30, 2010		December 31, 2009	
	Carrying amount	Percent of total	Carrying amount	Percent of total
	($ in millions)			
Geographic distribution				
New England	**$ 419.6**	**4.3%**	$ 446.3	4.4%
Middle Atlantic	**1,528.2**	**15.6**	1,535.4	15.2
East North Central	**879.3**	**9.0**	941.8	9.3
West North Central	**486.9**	**5.0**	504.3	5.0
South Atlantic	**2,479.3**	**25.4**	2,641.8	26.1
East South Central	**256.2**	**2.6**	300.0	3.0
West South Central	**667.6**	**6.8**	672.1	6.6
Mountain	**718.4**	**7.3**	835.4	8.2
Pacific	**2,429.6**	**24.9**	2,377.2	23.5
Valuation allowance	**(89.5)**	**(0.9)**	(132.5)	(1.3)
Total	**$ 9,775.6**	**100.0%**	$ 10,121.8	100.0%
Property type distribution				
Office	**$ 2,749.2**	**28.1%**	$ 2,782.1	27.5%
Retail	**2,675.4**	**27.4**	2,782.0	27.5
Industrial	**2,386.0**	**24.4**	2,394.3	23.6

Apartments	**1,222.6**	**12.5**		1,415.2	14.0
Hotel	**484.9**	**5.0**		497.2	4.9
Mixed use/other	**347.0**	**3.5**		383.5	3.8
Valuation allowance	**(89.5)**	**(0.9)**		(132.5)	(1.3)
Total	**$ 9,775.6**	**100.0%**	$	10,121.8	100.0%

Commercial mortgage lending in the state of California accounted for 21% and 20% of our commercial mortgage loan portfolio as of June 30, 2010 and December 31, 2009, respectively. We are, therefore, exposed to potential losses resulting from the risk of catastrophes, such as earthquakes, that may affect the region. Like other lenders, we generally do not require earthquake insurance for properties on which we make commercial mortgage loans. With respect to California properties, however, we obtain an engineering report specific to each property. The report assesses the building s design specifications, whether it has been upgraded to meet seismic building codes and the maximum loss that is likely to result from a variety of different seismic events. We also obtain a report that assesses, by building and geographic fault lines, the amount of loss our commercial mortgage loan portfolio might suffer under a variety of seismic events.

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Our commercial loan portfolio is highly diversified by borrower. As of both June 30, 2010 and December 31, 2009, 31% of the commercial mortgage loan portfolio was comprised of mortgage loans with principal balances of less than $10.0 million. The total number of commercial mortgage loans outstanding was 1,069 and 1,101 as of June 30, 2010 and December 31, 2009, respectively. The average loan size of our commercial mortgage portfolio was $9.2 million and $9.3 million as of June 30, 2010 and December 31, 2009, respectively.

Commercial Mortgage Loan Credit Monitoring. We actively monitor and manage our commercial mortgage loan portfolio. All loans within the portfolio are analyzed regularly and substantially all are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets. Based on ongoing monitoring, mortgage loans with a likelihood of becoming delinquent are identified and placed on an internal watch list . Among the criteria that would indicate a potential problem are: imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

We review our mortgage loan portfolio and analyze the need for a valuation allowance for any loan that is delinquent for 60 days or more, in process of foreclosure, restructured, on the internal watch list or that currently has a valuation allowance. We categorize loans that are 60 days or more delinquent, loans in process of foreclosure and loans with borrowers or credit tenants in bankruptcy that are delinquent as problem loans. Valuation allowances have been recognized on most problem loans. We categorize loans that are delinquent less than 60 days where the default is expected to be cured and loans with borrowers or credit tenants in bankruptcy that are current as potential problem loans. The decision whether to classify a performing loan as a potential problem involves significant subjective judgments by management as to the likely future economic conditions and developments with respect to the borrower. We categorize loans for which the original note rate has been reduced below market and loans for which the principal has been reduced as restructured loans. We also consider loans that are refinanced more than one year beyond the original maturity or call date at below market rates as restructured.

The decrease in the level of problem, potential problem and restructured commercial mortgages during the first half of 2010 reflects loan write downs and the internal refinance of several others at market terms. There was a significant increase in the level of problem, potential problem, and restructured commercial mortgages during 2009 due to the impact of the U.S. recession on commercial real estate. The job losses and record foreclosures in housing have negatively impacted property vacancy rates and rental rates. Areas significantly impacted by the recession include the South Atlantic and Pacific regions, which account for the majority of the problem, potential problem and restructured commercial mortgages as of June 30, 2010 and December 31, 2009. Apartment properties in those regions, which accounted for over half of the problem, potential problem and restructured commercial mortgages as of December 31, 2009, and over one-third as of June 30, 2010, have been hit the hardest by the falling rents and occupancies. Many of the loans sold and refinanced during the first half of 2010 were apartments in the South Atlantic region.

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages relative to the carrying amount of all commercial mortgages for the periods indicated.

	June 30, 2010	December 31, 2009
	($ in millions)	
Total commercial mortgages	**$ 9,775.6**	$ 10,121.8
Problem commercial mortgages	**$ 76.8**	$ 96.5
Potential problem commercial mortgages	**284.2**	521.0
Restructured commercial mortgages	**21.2**	10.3
Total problem, potential problem and restructured commercial mortgages	**$ 382.2**	$ 627.8
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	**3.91%**	6.20%

Commercial Mortgage Loan Valuation Allowance. The valuation allowance for commercial mortgage loans includes a loan specific allowance for impaired loans and a provision for losses based on past loss experience and current market factors believed to be adequate to absorb estimated probable credit losses. The changes in the valuation allowance are reported in net realized capital gains (losses) on our consolidated statements of operations.

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Commercial mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a loss is recognized for the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is based on either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or the fair value of the collateral less cost to sell.

When a valuation allowance is established, subsequent recoveries are credited to the valuation allowance and subsequent losses may be charged to the valuation allowance. The determination of the calculation and the adequacy of the mortgage loan loss provision based on past experience and current portfolio statistics are subjective. Our periodic evaluation and assessment of the adequacy of the provision for losses and the need for mortgage impairments is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of the underlying collateral, a loan s internal risk rating, composition of the loan portfolio, real estate market fundamentals, current economic conditions, loss experience and other relevant factors. Our financial position is sensitive to changes in estimated cash flows from mortgages, the value of the collateral and changes in the economic environment in general.

The valuation allowance for PFG decreased $43.0 million for the six months ended June 30, 2010, and increased $75.5 million for the year ended December 31, 2009. The decrease in the level of valuation allowance during the first half of 2010 is primarily related to loan write downs and the related release of valuation allowance, which is partially offset by current period provisions. The increase in the level of valuation allowance during 2009 was related to the same market factors as those causing the increase in the level of problem, potential problem and restructured commercial mortgages during 2009. Areas most affected by the recession, including the South Atlantic and Pacific regions, account for the highest level of reserves at June 30, 2010 and December 31, 2009.

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

	June 30, 2010	December 31, 2009
	($ in millions)	
Balance, beginning of period	**$ 132.5**	$ 57.0
Provision	**42.0**	126.9
Releases	**(85.0)**	(51.4)
Balance, end of period	**$ 89.5**	$ 132.5
Valuation allowance as % of carrying value before reserves	**0.91%**	1.29%

Residential Mortgage Loans. The residential mortgage loan portfolio is composed of home equity mortgages of $800.9 million and $912.2 million and first lien mortgages of $227.6 million and $245.2 million as of June 30, 2010 and December 31, 2009, respectively, primarily held by our Bank and Trust Services business. The home equity loans are generally second lien mortgages made up of closed-end loans and lines of credit. Non-performing residential mortgage loans, defined as loans greater than 90 days delinquent plus non-accrual loans, totaled $31.6 million and $66.8 million as of June 30, 2010 and December 31, 2009, respectively. The valuation allowance for residential mortgage loans was $46.0 million and $28.7 million as of June 30, 2010 and December 31, 2009, respectively.

We establish the residential mortgage loan valuation allowance at levels considered adequate to absorb probable losses within the portfolio based on management s evaluation of the size and current risk characteristics of the portfolio. Such evaluation considers numerous factors, including, but not limited to net charge-off trends, loss forecasts, collateral values, geographic location, borrower FICO scores, delinquency rates, industry condition and economic trends. Our residential mortgage loan portfolio, and in particular our home equity loan portfolio, has experienced an increase in severe delinquencies and loss severity from sustained elevated levels of unemployment along with continued

depressed collateral values. The deterioration has resulted in an increase in delinquencies and default costs. The change in the valuation allowance is composed of an increase for a pre-tax provision for loan loss of $73.6 million for the six months ended June 30, 2010, and $31.5 million for the year ended December 31, 2009, and a decrease for recorded write downs and the related release of the valuation allowance of $56.3 million and $15.0 million in the same periods, respectively. The provision for loan loss is reported in net realized capital gains (losses) on our consolidated statements of operations.

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Real Estate

Real estate consists primarily of commercial equity real estate. As of June 30, 2010 and December 31, 2009, the carrying amount of our equity real estate investment was $1,073.6 million, or 2%, and $1,022.2 million, or 2%, of U.S. invested assets, respectively. Our commercial equity real estate is held in the form of wholly owned real estate, real estate acquired upon foreclosure of commercial mortgage loans and majority owned interests in real estate joint ventures.

Equity real estate is categorized as either real estate held for investment or real estate held for sale. Real estate held for investment totaled $1,035.8 million and $998.4 million as of June 30, 2010 and December 31, 2009, respectively. The carrying value of real estate held for investment is generally adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as net realized losses and, accordingly, are reflected in our consolidated results of operations. For the six months ended June 30, 2010 and the year ended December 31, 2009, there were no such impairment adjustments.

The carrying amount of real estate held for sale was $37.8 million and $23.8 million as of June 30, 2010 and December 31, 2009, respectively. There were no valuation allowances for June 30, 2010 or December 31, 2009. Once we identify a real estate property to be sold and commence a plan for marketing the property, we classify the property as held for sale. We establish a valuation allowance subject to periodic revisions, if necessary, to adjust the carrying value of the property to reflect the lower of its current carrying value or the fair value, less associated selling costs.

We use research, both internal and external, to recommend appropriate product and geographic allocations and changes to the equity real estate portfolio. We monitor product, geographic and industry diversification separately and together to determine the most appropriate mix.

Equity real estate is distributed across geographic regions of the country with larger concentrations in the South Atlantic and West South Central regions of the United States as of June 30, 2010. By property type, there is a concentration in office, industrial and apartments that represented approximately 75% of the equity real estate portfolio as of June 30, 2010.

Other Investments

Our other investments totaled $1,772.7 million as of June 30, 2010, compared to $1,480.2 million as of December 31, 2009. Derivative assets accounted for $1,378.0 million and $1,212.7 million in other investments as of June 30, 2010 and December 31, 2009, respectively. The remaining invested assets include equity method investments, which include properties owned jointly with venture partners and operated by the partners.

International Investment Operations

Of our invested assets, $4.5 billion were held by our International Asset Management and Accumulation segment as of June 30, 2010. Our international investment operations consist of the investments of Principal International. The assets are managed by either our Global Asset Management segment or by the local Principal International affiliate. Due to the regulatory constraints in each country, each company maintains its own investment policies. As shown in the following table, the major categories of international invested assets as of June 30, 2010 and December 31, 2009, were fixed maturities, other investments and residential mortgage loans. The following table excludes invested assets of the separate accounts.

		June 30, 2010		December 31, 2009	
		Carrying amount	% of total	Carrying amount	% of total
		($ in millions)			
Fixed maturities	Public	**$ 2,884.5**	**64%**	$ 2,767.1	62%
Equity securities		**53.3**	**1**	46.7	1
Mortgage loans	Residential	**534.5**	**12**	595.1	14
Real estate		**9.1**		12.4	
Policy loans		**20.1**	**1**	21.2	1
Other investments		**985.3**	**22**	985.1	22
Total invested assets		**4,486.8**	**100%**	4,427.6	100%
Cash and cash equivalents		**65.4**		48.1	
Total invested assets and cash		**$ 4,552.2**		$ 4,475.7	

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Investments in equity method subsidiaries and direct financing leases accounted for $595.0 million and $363.4 million, respectively, of other investments as of June 30, 2010. Investments in equity method subsidiaries and direct financing leases accounted for $578.7 million and $373.3 million, respectively, of other investments as of December 31, 2009. The remaining other investments as of both June 30, 2010 and December 31, 2009, are primarily related to derivative assets and other short-term investments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposures and Risk Management

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

We enter into market-sensitive instruments for purposes other than trading. The active management of market risk is an integral part of our operations. We manage our overall market risk exposure within established risk tolerance ranges by using the following approaches:

- rebalance our existing asset or liability portfolios;
- control the risk structure of newly acquired assets and liabilities or
- use derivative instruments to modify the market risk characteristics of existing assets or liabilities or assets expected to be purchased.

Interest Rate Risk

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

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

We manage interest rate risks in a number of ways. Differences in durations between assets and liabilities are measured and kept within acceptable tolerances. Derivatives are also commonly used to mitigate interest rate risk due to cash flow mismatches and timing differences. Prepayment risk is controlled by limiting our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer. We also require additional yield on these investments to compensate for the risk the issuer will exercise such option. Prepayment risk is also controlled by limiting the sales of liabilities with features such as puts or other options that can be exercised against the company at inopportune times. For example, as of June 30, 2010, approximately $13.4 billion, or 98%, of our institutional GICs and funding agreements cannot be redeemed by contractholders prior to maturity.

We are also exposed to interest rate risk based upon the discount rate assumption used for purposes of valuing our employee pension and other postretirement benefit obligations.

Duration-Managed. Our exposure to interest rate risk stems largely from our substantial holdings of guaranteed fixed rate liabilities in our U.S. Asset Accumulation segment. We actively manage the duration of assets and liabilities in these products by minimizing the difference between the two. We have established a guideline for this difference and seek to stay within this tolerance.

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As of June 30, 2010, the difference between the asset and liability durations on our primary duration-managed portfolio was -0.29, as compared to -0.12 as of December 31, 2009. This duration gap indicates that, as of June 30, 2010, the sensitivity of the fair value of our assets to interest rate movements is less than that of the fair value of our liabilities. Our goal is to minimize the duration gap. Currently, our guidelines indicate that total duration gap between the asset and liability portfolios should be within +/-0.25. The value of the assets in this portfolio was $27,936.6 million and $28,377.1 million as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010, the mismatch is outside of our duration gap guideline due to temporary asset and liability spread mismatches. Our cash flow studies reflect our general practice to hold assets and liabilities to maturity and indicate that the interest rate risk is sufficiently managed.

Duration-Monitored. For products such as whole life insurance and term life insurance that are less sensitive to interest rate risk, and for other products such as individual fixed annuities, we manage interest rate risk based on a modeling process that considers the target average life, maturities, crediting rates and assumptions of policyholder behavior. As of June 30, 2010, the weighted-average difference between the asset and liability durations on these portfolios was -1.33, as compared to -0.16 as of December 31, 2009. This duration gap indicates that, as of June 30, 2010, the sensitivity of the fair value of our assets to interest rate movements is less than that of the fair value of our liabilities. We monitor this duration gap consistent with our overall risk/reward tolerances. The value of the assets in these portfolios was $24,071.8 million and $22,497.1 million as of June 30, 2010 and December 31, 2009, respectively.

Non Duration-Managed. We also have a block of participating general account pension business that passes most of the actual investment performance of the assets to the customer. The investment strategy of this block is to maximize investment return to the customer on a best efforts basis, and there is little or no attempt to manage the duration of this portfolio since there is little or no interest rate risk. The value of the assets in these portfolios was $4,812.4 million and $5,745.5 million as of June 30, 2010 and December 31, 2009, respectively.

Using the assumptions and data in effect as of June 30, 2010, we estimate that a 100 basis point immediate, parallel increase in interest rates increases the net fair value of our portfolio by approximately $400.4 million, compared with an estimated $71.1 million increase as of December 31, 2009. The following table details the estimated changes by risk management strategy. The table also gives the weighted-average duration of the asset portfolio for each category, and the net duration gap (i.e., the weighted-average difference between the asset and liability durations).

	June 30, 2010			
Risk Management Strategy	**Value of total assets (in millions)**	**Duration of assets**	**Net duration gap**	**Net fair value change (in millions)**
Primary duration-managed	**$ 27,936.6**	**3.32**	**(0.29)**	**$ 81.0**
Duration-monitored	**24,071.8**	**4.21**	**(1.33)**	**319.4**
Non duration-managed	**4,812.4**	**4.39**	**N/A**	**N/A**
Total	**$ 56,820.8**			**$ 400.4**

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

Debt Issued and Outstanding. The aggregate fair value of long-term debt was $1,683.6 million and $1,608.4 million, as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010, a 100 basis point immediate, parallel decrease in interest rates would increase the fair value of debt by approximately $134.7 million, as compared to an estimated $132.6 million increase as of December 31, 2009. As of June 30, 2010, a 100 basis point immediate, parallel increase in interest rates would decrease the fair value of debt by approximately $118.8 million, as compared to an estimated $114.3 million decrease as of December 31, 2009. Debt is not recorded at fair value on the statement of financial position.

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Our selection of a 100 basis point immediate, parallel increase or decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase or decrease does not represent our view of future market changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our long-term debt obligations at a point in time and may not be representative of future obligations. These exposures will change as a result of ongoing changes to our outstanding long-term debt obligations.

Use of Derivatives to Manage Interest Rate Risk. We use or have previously used various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, interest rate collars, swaptions, futures and options. We use interest rate swaps and futures contracts to hedge changes in interest rates subsequent to the issuance of an insurance liability, such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the sensitivity to the interest rate of specific assets and liabilities as well as an entire portfolio. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts. We purchase swaptions to offset existing exposures. Occasionally, we have sold a callable investment-type agreement and used written interest rate swaptions to transform the callable liability into a fixed term liability.

Derivatives in our portfolio with interest rate sensitivity were in a net liability position with a fair value of $279.3 million and $130.7 million as of June 30, 2010 and December 31, 2009, respectively. The following table shows the interest rate sensitivity of our derivatives measured in terms of fair value. These exposures will change as a result of ongoing portfolio and risk management activities.

	June 30, 2010				
			Fair value (no accrued interest)		
	Notional amount	Weighted average term (years) (1)	-100 basis point change ($ in millions)	No change	+100 basis point change
Interest rate swaps	$ 20,880.1	5.59	$ (391.0)	$ (294.0)	$ (201.4)
Interest rate collars	500.0	12.66	31.7	15.1	3.7
Swaptions	68.5	1.67		0.1	0.4
Futures (2)	0.3	0.24	(0.5)	(0.5)	(0.4)
Total	$ 21,448.9		$ (359.8)	$ (279.3)	$ (197.7)

(1) Based on maturity date.

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

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

Foreign Currency Risk

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements issued to nonqualified institutional investors in the international market, foreign currency-denominated fixed maturities and demand deposits purchased and our international operations.

We estimate that as of June 30, 2010, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no material change to the net fair value of our foreign currency denominated instruments identified above because we effectively hedge foreign currency denominated instruments to minimize exchange rate impacts, which is consistent with our estimate as of December 31, 2009. However, fluctuations in foreign currency exchange rates do affect the translation of operating earnings and equity of our international operations into our consolidated financial statements.

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For our International Asset Management and Accumulation segment, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we were exposed would have resulted in a $137.5 million, or 10%, reduction in the total equity excluding noncontrolling interests of our international operations as of June 30, 2010, as compared to an estimated $135.7 million, or 10%, reduction as of December 31, 2009. We estimate that a 10% unfavorable change in the average foreign currency exchange rates to which we were exposed through our international operations would have resulted in a $3.7 million, or 10%, reduction in the quarterly operating earnings of our international operations for the three months ended June 30, 2010, as compared to an estimated $3.2 million, or 11%, reduction for the three months ended June 30, 2009. In addition, a 10% unfavorable change in the average foreign currency exchange rates to which we were exposed through our international operations would have resulted in a $7.8 million, or 11%, reduction in the operating earnings of our international operations for the six months ended June 30, 2010, as compared to an estimated $5.2 million, or 11%, reduction for the six months ended June 30, 2009.

The selection of a 10% immediate unfavorable change in all currency exchange rates should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. These exposures will change as a result of a change in the size and mix of our foreign operations.

Use of Derivatives to Manage Foreign Currency Risk. The foreign currency risk on funding agreements and fixed maturities is mitigated by using currency swaps that swap the foreign currency interest and principal payments to our functional currency. The notional amount of our currency swap agreements associated with foreign-denominated liabilities was $3,253.5 million and $3,386.0 million as of June 30, 2010 and December 31, 2009, respectively. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturities was $1,680.9 million and $1,867.2 million as of June 30, 2010 and December 31, 2009, respectively.

With regard to our international operations, we attempt to do as much of our business as possible in the functional currency of the country of operation. At times, however, we are unable to do so, and in these cases, we use foreign exchange derivatives to economically hedge the resulting risks. Our operations in Chile had currency swaps with a notional amount of $43.0 million and $31.2 million as of June 30, 2010 and December 31, 2009, respectively, which were used to swap cash flows on U.S. dollar-denominated bonds to a local currency. Our operations in Chile also utilized currency forwards with a notional amount of $76.7 million and $91.5 million as of June 30, 2010 and December 31, 2009, respectively, in order to mitigate currency exposure related to bonds denominated in currencies other than Chilean pesos.

Additionally, from time to time we take measures to hedge our net equity investments in our foreign subsidiaries from currency risks. There were no outstanding net equity investment hedges in 2010 or 2009.

Equity Risk

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in a particular common stock. As of June 30, 2010 and December 31, 2009, the fair value of our equity securities was $394.1 million and $435.5 million, respectively. As of June 30, 2010, a 10% decline in the value of the equity securities would result in an unrealized loss of $39.4 million, as compared to an estimated unrealized loss of $43.6 million as of December 31, 2009.

We are also exposed to the risk that asset-based fees decrease as a result of declines in assets under management due to changes in investment prices and the risk that asset management fees calculated by reference to performance could be lower. We estimate that an immediate 10% decline in the Standard & Poor s index, followed by a 2% per quarter increase would reduce our annual operating earnings by approximately four to six percent. The risk of decreased asset-based and asset management fees could also impact our estimates of total gross profits used as a basis for amortizing deferred policy acquisition costs and other actuarial balances.

The selection of a 10% unfavorable change in the equity markets should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. Our exposure will change as a result of changes in our mix of business.

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

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

The fair value of both the GMWB embedded derivative and associated hedging instruments are sensitive to financial market conditions and the variance related to the change in fair value of these items for a given period is largely dependent on market conditions at the end of the period. We recognized a pre-tax gain (loss) on the change in fair value of the GMWB embedded derivative of $(76.7) million and $(9.3) million for the three months ended June 30, 2010 and 2009, respectively, and $(66.6) million and $10.2 million for the six months ended June 30, 2010 and 2009, respectively. We recognized a pre-tax gain (loss) on the derivatives used to economically hedge our GMWB market risk, which includes equity risk, of $108.3 million and $(112.1) million for the three months ended June 30, 2010 and 2009, respectively, and $ 91.6 million and $(128.9) million for the six months ended June 30, 2010 and 2009, respectively. The difference between the gain (loss) on the GMWB embedded derivative and the related derivatives used to hedge the embedded derivative primarily relates to the changes in the spread reflecting our own creditworthiness, which is incorporated in the discount rates used to value the GMWB embedded derivative.

We incorporate a spread reflecting our own creditworthiness and additional risk margins in the valuation of the GMWB embedded derivative. Throughout the second quarter of 2010, the spread reflecting our own credit risk increased, which drove an increase in the discount rates applied, thereby partially offsetting the overall increase in the fair value of the embedded derivative liability driven by financial market conditions during the quarter. Changes in the spread reflecting our own credit risk have resulted in the income statement impact from the changes in fair value of the embedded derivative being different than the income statement impact from the changes in fair value of the associated hedging instruments. Reflecting the actual and expected changes in value of the GMWB embedded derivative and the associated hedging instruments in our estimated gross profits resulted in a $24.4 million and a $34.7 million pre-tax increase in DPAC amortization for the three and six months ended June 30, 2010, respectively. Additionally, reflecting the actual and expected changes in value of the GMWB embedded derivative and the associated hedging instruments in our estimated gross profits resulted in a $74.6 million and $35.9 million pre-tax decrease in DPAC amortization for the three and six months ended June 30, 2009, respectively.

Credit Risk

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

Use of Derivatives to Diversify or Hedge Credit Risk. We purchase credit default swaps to hedge credit exposures in our investment portfolio. We sell credit default swaps to offer credit protection to investors. When selling credit protection, if there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security. For further information on credit derivatives sold, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments.

We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of $399.5 million and $448.5 million as of June 30, 2010 and December 31, 2009, respectively. We had credit exposure through credit default swaps with a notional amount of $170.0 million and $15.0 million as of June 30, 2010 and December 31, 2009, respectively, by investing in various tranches of synthetic collateralized debt obligations. In addition, we sold credit default swaps creating replicated assets with a notional amount of $1,037.9 million and $1,122.9 million as of June 30, 2010 and December 31, 2009, respectively.

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Derivative Counterparty Risk

In conjunction with our use of derivatives, we are exposed to counterparty risk, or the risk that the counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- obtaining approval of all new counterparties by the Investment Committee;
- establishing exposure limits which take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- diversifying our risk across numerous approved counterparties;
- implementing credit support annex (collateral) agreements (CSAs) with the majority of counterparties to further limit counterparty exposures, which provide for netting of exposures;
- limiting exposure to A+ credit or better for counterparties without CSAs;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction and
- daily monitoring of counterparty credit ratings, exposure and associated collateral levels.

We believe the risk of incurring losses due to nonperformance by our counterparties is manageable. For further information on derivatives, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments.

Based on our accounting policy, our disclosed exposure measures the fair value of derivatives that have become favorable to us and, therefore, is a combined credit exposure if all of the involved counterparties failed to fulfill their obligations. In the hypothetical scenario where all of our counterparties fail to fulfill their obligations, our exposure would be $1,456.9 million; however, including collateral received our exposure would be reduced to $1,186.3 million at June 30, 2010. For further information on derivative exposure, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments under the caption, Exposure.

We manage our exposure on a net basis, whereby we net positive and negative exposures for each counterparty with agreements in place. Netting positive and negative exposures would yield an exposure of $363.0 million, which is reduced to $92.4 million with pledged collateral at June 30, 2010. As of June 30, 2010, we held total collateral of $270.6 million in the form of cash and securities and we posted $306.9 million in cash and securities as collateral to our counterparties. We have not incurred any material losses on derivative financial instruments due to counterparty nonperformance. As of June 30, 2010, any deterioration in our derivative counterparties credit would not materially impact our financial statements.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

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

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Disclosure Controls and Procedures

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

Our Chief Executive Officer, Larry D. Zimpleman, and our Chief Financial Officer, Terrance J. Lillis, have reviewed and evaluated our disclosure controls and procedures as of June 30, 2010, and have concluded that our disclosure controls and procedures are effective.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 7, Contingencies, Guarantees and Indemnifications under the caption, Litigation and Regulatory Contingencies, which is incorporated here by this reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009. If any of those factors were to occur, they could materially adversely affect our business, financial condition or future results, and could cause actual results to differ materially from those expressed in forward-looking statements in this report. With the exception of the risk factor updates below, there have been no material changes with respect to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2009.

- Securities Lending Program

We have not participated in a securities lending program for our general account since December 2008 and have no current intention to do so in the future. Accordingly, we no longer consider participation in such a program to be a potential liquidity or other risk.

- Healthcare Reform

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law. The provisions of these new laws include, among others, imposing significant new non-deductible federal premium taxes and other assessments on health insurers, limiting Medicare Advantage payment rates and reducing the Medicare Part D coverage gap, stipulating a prescribed minimum ratio for the amount of premium revenues to be expended on medical costs, guaranteed coverage requirements, elimination of pre-existing condition exclusions and annual and lifetime maximum limits, restrictions on the extent to which policies can be rescinded and additional regulations governing premium rate increase requests. Implementation of the provisions of these new laws generally varies from as early as six months from the date of enactment to as long as 2018.

There are numerous steps required to implement these laws including, for example, regulation necessary to determine the methodology of calculating minimum ratios for medical expenditures. Further, various health insurance reform proposals are also emerging at the state level. Because of the unsettled nature of these reforms and numerous steps required to implement them, we cannot predict what additional health insurance reforms will be implemented at the federal or state level or the effect that any future legislation or regulation will have on our business.

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For additional information regarding Healthcare Reform, see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Healthcare Reform.

- Financial Services Regulatory Reform

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) was enacted and signed into law. The Dodd-Frank Act makes extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementing rules and regulations. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act will not be known for many months or years. In addition, the legislation mandates multiple studies and reports for Congress, which could result in additional legislative or regulatory action.

It is anticipated that we will receive oversight from the Federal Reserve including various capital and liquidity requirements. It is also anticipated that we will be labeled a Major Swap Participant that will require more oversight of current and future derivative transactions under the separate jurisdictions of the SEC and the Commodities Futures Trading Commission. This will include trading swaps through either regulated exchanges or approved clearinghouses, and require additional collateral to support derivatives transactions.

The changes resulting from the Dodd-Frank Act and the yet to be written implementing rules and regulations may lower the profitability of our business activities, require changes to certain of our business practices or otherwise adversely affect our business.

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

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

Issuer Purchases of Equity Securities

Period	Total number of shares (or units) purchased (1)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (in millions) (2)
January 1, 2010 January 31, 2010	**9,357**	**$ 24.11**	**$**	**250.0**
February 1, 2010 February 28, 2010	**40**	**$ 25.26**	**$**	**250.0**

March 1, 2010	March 31, 2010	**66,944**	**$**	**23.22**	**$** **250.0**
April 1, 2010	April 30, 2010	**9,411**	**$**	**25.68**	**$** **250.0**
May 1, 2010	May 31, 2010	**403**	**$**	**23.24**	**$** **250.0**
June 1, 2010	June 30, 2010		**$**		**$** **250.0**
Total		**86,155**			

(1) Reflects the number of shares of common stock utilized to execute certain stock incentive awards in 2010.

(2) During November 2007, our Board of Directors authorized a share repurchase program of up to $500.0 million of our outstanding common stock. As of June 30, 2010, $250.0 million remained under the November 2007 authorization. We suspended purchases of our common stock effective October 13, 2008, under the existing share repurchase program.

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Item 6. Exhibits

Exhibit Number	Description
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Larry D. Zimpleman
31.2	Certification of Terrance J. Lillis
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Larry D. Zimpleman
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Terrance J. Lillis
101	The following materials from Principal Financial Group, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

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SIGNATURE

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

PRINCIPAL FINANCIAL GROUP, INC.

Dated: August 4, 2010

By /s/ Terrance J. Lillis
Terrance J. Lillis
Senior Vice President and Chief Financial Officer

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

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