The Principal Financial Group® First Quarter 2009 Earnings

Details from the Earnings Call Prepared Comments

May 5, 2009

As announced in the press release, The Principal® had solid first quarter operating earnings, as recent expense initiatives offset some of the decline in revenues caused by reduced asset valuations. In addition, our investment portfolio continued to perform well, resulting in a manageable level of capital losses.

Key topics covered on the call

- **Continued ability to attract and retain customers**:
  - Our asset management and accumulation growth engines delivered $4.6 billion of net cash flows, including near-record flows for full service accumulation of $2.9 billion.
  - Our U.S. retirement growth engines -- full service accumulation, Principal Funds, and individual annuities -- delivered $6 billion of sales, a particularly strong result in a difficult sales environment.
  - Reflecting multiple wins across each of our asset classes, Principal Global Investors received $3.5 billion of deposits from non-affiliated clients during the quarter.
- **Strong capital and liquidity**:
  - The company continued to increase its position in highly liquid assets, with $5.8 billion as of March 31, 2009, an increase of 76 percent compared to a year ago. This reflects $2.7 billion of cash and cash equivalents as of March 31, 2009, an increase of 141 percent from a year ago, and $3.1 billion of government backed securities, an increase of 43 percent from a year ago.
  - Prior to quarter end, we moved $645 million from the life company to the holding company.
  - At quarter-end, relative to an RBC ration of 350 percent, our excess capital position was approximately $850 million, essentially all at the holding company. This amount is sufficient to meet holding company needs for 2009, primarily long-term debt maturing in August, of which $441 million remains outstanding.
  - We estimate our life company risk based capital ratio to be in the range of 350 to 375 percent at quarter-end. The life company remains strong and stable, with adequate capital to meet customer obligations.
  - In an environment where revenues are under pressure and higher than normal losses are likely, The Principal continues to focus on expense management to preserve its strong capital position.
    - Management action reduced compensation and other expenses by 15 percent compared to first quarter 2008.

        - While aligning expenses with revenues remains a priority, we'll do it in a thoughtful way to ensure our competitive position remains strong and customers are well served.

- **Investment portfolio performs well, company maintains view that future losses will be manageable:**
    - With operating earnings of $164.0 million, as compared to $50.9 million of net realized capital losses in the first quarter, losses were very manageable.
    - Even in the wake of a meaningful drop in property values, average loan to values on our commercial mortgage loan portfolio remain very strong, at 67 percent.
    - In addition to the company's own portfolio stress testing, the company ran its CMBS portfolio through third party models with similar results. Even under stressed conditions, losses are very manageable, occurring later in the credit cycle and over a multi-year period.
    - The company continues to emphasize that gross unrealized losses are a poor indicator of future investment losses.
        - Gross unrealized losses are driven more by a supply/demand imbalance than underlying credit risks.
        - Gross unrealized losses are unrealized for a reason – our assets are performing, our cash flows have not been diminished, and we continue to see our assets mature at par.
        - Our discipline in matching our assets to our liabilities, along with our strong liquidity position, gives us the intent and ability to the hold assets until maturity. We do not believe we will be forced to sell assets into a thinly traded market at a loss.
- **Actively managing the investment portfolio**:
    - We continue to invest new cash into high quality, liquid assets, with the majority going into agency mortgage pass-throughs and NAIC 1 corporate bonds.
    - We're managing exposures in a changing credit environment, reducing our BBB bond holdings during the first quarter by approximately $340 million.
    - We have not purchased CMBS since July 2008 – about $400 million will pay off at maturity in 2009, reducing our exposure.
    - 87.5 percent of the $212 million of loans maturing in our commercial mortgage loan portfolio during the first quarter found external refinancing. This reflects continued strong demand for the type of loans we've historically invested in -- well underwritten loans, primarily in the 5 to 20 million dollar range, with high occupancy, low loan to value and strong debt service coverage.

The Principal continues to prove itself a company with strong fundamentals

- Focused on the long-term

- Well diversified

- Nearly 19 million customers, including over 100,000 small and medium businesses
- Top-tier investment expertise
- Strong risk management culture
- Named one of the “World’s Most Ethical” companies by Ethisphere Institute in April 2009

Additional resources

The Principal Financial Group: A strong partner rain or shine

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