



## Questions and Answers about Ratings Agency Actions

A number of established ratings agencies assess financial services companies' financial strength based on their business mix and market position, the strength of the management, profitability, asset quality and level of capitalization.

These agencies are fine-tuning their rating criteria as they react to market volatility. Recent ratings agency actions are reflective of the outlook for the entire sector, where difficult market conditions have resulted in these ratings agencies putting the North American life insurance sector on negative outlook.

The Principal® has consistently received high financial strength ratings from the four major U.S. ratings agencies. Strong relative ratings are important to us as they provide customers with comfort in our ability to meet our obligations.

The goals of The Principal with respect to ratings are to:

- Continue operating in a manner that maintains or improves our financial strength and stability
- Provide excellent products, services and financial performance to our clients at a fair and reasonable cost
- Maintain strong ratings relative to our competitors in the industry

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|                   |                   |                   |                   |
|-------------------|-------------------|-------------------|-------------------|
| A.M. Best         | Fitch Rating      | Standard & Poor's | Moody's           |
| <b>A+</b>         | <b>AA-</b>        | <b>A+</b>         | <b>Aa3</b>        |
| Superior          | Very Strong       | Strong            | Excellent         |
| 2nd highest of 16 | 4th highest of 21 | 5th highest of 21 | 4th highest of 21 |
| February 2009     | May 2009          | May 2009          | May 2009          |

Current ratings for Principal Life Insurance Company

# A.M. Best

|                   |
|-------------------|
| A.M. Best         |
| <b>A+</b>         |
| Superior          |
| 2nd highest of 16 |
| February 2009     |

*Well-established product lines and broad distribution*

## Q: Why did A.M. Best affirm your rating? Why did the outlook change to negative?

In affirming the financial strength rating on Feb. 27, 2009, A.M. Best (A+) cited the following strengths:

- Diverse and sustainable earnings
- Disciplined financial management, solid liquidity and sound current risk-adjusted capital position
- Cost-efficient operations
- Dominant position serving small and medium-sized businesses in the U.S. employer-sponsored retirement plan market
- Well-established product lines and broad distribution
- Emerging global growth

We are very pleased with affirmation of our rating. In this market of unprecedented volatility, Principal Life Insurance Company has demonstrated that it is fundamentally very sound.

Market conditions have caused all the ratings agencies to put a negative outlook on the North American life insurance sector. The change in outlook reflects worsening market conditions.

A negative outlook doesn't impact our products or service. We continue to be committed to helping our customers in securing their financial futures.

## Q: Why was the Principal Life issuer credit rating downgraded?

In changing the issuer credit rating to 'aa-' from 'aa,' A.M. Best cited the following:

- Impact of adverse capital and credit market conditions
- Realized capital losses in the investment portfolio
- Reduced overall assets under management

An issuer credit rating is the rating assigned to the debt of Principal Life. It does not impact our products or services as we remain committed to helping our customers in securing their financial futures.

# Fitch

|                   |
|-------------------|
| Fitch Rating      |
| <b>AA-</b>        |
| Very Strong       |
| 4th highest of 21 |
| May 2009          |

*Strong liquidity without need to sell assets at depressed prices*

## Q: Why did Fitch affirm your rating and change the outlook to negative?

Fitch on May 13, 2009, affirmed the AA- financial strength rating of Principal Life Insurance Company.

Fitch changed the outlook to negative from Rating Watch Negative. Rating Watch Negative indicated Fitch could take action if short-term concerns weren't addressed. Their concern was over our ability to successfully refinance maturing debt given difficult capital market conditions. In reaction to our common stock offering, which gives us additional capital, Fitch changed their outlook. Fitch's negative outlook reflects their view on economic conditions and the potential pressure on our investment performance over time.

In their review, Fitch cited many strengths of The Principal, including:

- Strong market position in the employee benefit insurance business
- Strong liquidity without need to sell assets at depressed prices
- Modest exposure to variable annuity segment

While we know all ratings agencies have a negative outlook for the entire sector due to difficult market conditions, we are disappointed in Fitch's actions.

We continue to demonstrate strong fundamentals, including:

- A diversified business mix, which has enabled us to deliver solid operating earnings despite difficult market conditions
- Strong capital and liquidity positions
- Limited exposure to certain product lines, such as variable annuities with guarantee riders, which can create capital stress in times of dysfunctional equity markets

# Standard & Poor's (S&P)



*Sustained strength in the U.S. small-to-midsize group pension business and strong competitive position in the individual life and group life and health marketplace.*

## Q: Why did S&P affirm your rating and change the outlook to positive?

Standard & Poor's (S&P) on May 13, 2009, affirmed the A+ insurer financial strength rating of Principal Life Insurance Company. S&P changed the outlook to positive from stable.

In affirming its rating and changing the outlook to positive, S&P cited several strengths of The Principal, including:

- Improved capital position and financial flexibility following the common stock offering
- Sustained strength in the U.S. small-to-midsize group pension business
- Strong competitive position in the individual life and group life and health marketplace

We are pleased with S&P's decision to change their outlook on Principal Life to positive. We feel it is reflective of a couple of key points:

- We continue to make significant progress in offsetting revenue declines through active expense management;
- We continue to generate excess capital through ongoing operations;
- We're freeing up additional capital through actions such as scaling back the investment only business;
- And, based on extensive stress testing of our portfolio, we believe that investment losses will be manageable, and will occur over a multi-year period.

# Moody's



*Strong asset-liability management and solid capital adequacy*

## Q: Why did Moody's affirm your rating and change the outlook to stable from negative?

Moody's on May 20, 2009, affirmed the Aa3 insurer financial strength rating of Principal Life Insurance Company. Moody's changed the outlook to stable.

In their press release, Moody's indicated that "the proceeds from PFG's equity and debt issuance provided a substantial cushion to cover short-term debt and potential commercial paper maturities, as well as future anticipated capital and liquidity needs at Principal Life — even under extremely stressful economic market conditions."

In affirming the rating and changing the outlook to stable, Moody's cited many strengths of The Principal, including:

- Strong broad-based position in the U.S. markets for group pensions
- Strong asset-liability management
- Solid capital adequacy



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Information current as of May 20, 2009

Third party ratings relate to Principal Life Insurance Company, the largest member company of the Principal Financial Group. The ratings are as of current date.

The ratings agencies have placed negative outlooks on the U.S. Life Insurance Sector. A negative outlook means that the ratings of many U.S. Life Insurance Companies may be downgraded due to impact of negative market conditions.

Ratings are not a recommendation to buy, sell or hold a security. Ratings are subject to revision or withdrawal at any time by the assigning agency, and each rating should be evaluated independently of any other rating.

Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk.

Insurance products and plan administrative services are provided by Principal Life Insurance Company, a member of the Principal Financial Group® (The Principal®), Des Moines, IA 50392.